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2002 Annual Report of the
Provincial Auditor of Ontario
to the Legislative Assembly

Erratum

Page 210, second-to-last line: *For* 35 species *Read* 31 species

103-02325/

To the Honourable Speaker of the Legislative Assembly

I am pleased to transmit my Annual Report for submission to the Assembly in accordance with the provisions of section 12 of the *Audit Act*.

Erik Peters

Erik Peters, FCA
Provincial Auditor

Fall 2002

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CHAPTER ONE

Overview

THE MANAGEMENT AND USE OF CONSULTING SERVICES

This year's report contains a number of significant concerns about the government's management and use of consulting services. While findings relating to consulting services figured in several of our value-for-money audit reports, I would like to focus on two findings in this overview: the first is reported in Chapter Three, Section 3.01—Ontario Works Program, and the second is reported in Section 3.06—Consulting Services.

ONTARIO WORKS PROGRAM

In 1997, the Ministry of Community, Family and Children's Services engaged Accenture (formerly known as Andersen Consulting) as a consultant on its Business Transformation Project. This project involved a province-wide revision of the business processes for delivering the Ministry's social-assistance programs and the information technology system supporting those processes. By March 31, 2002, Accenture had been paid about a quarter of a billion dollars ($246 million), out of total project costs of over $400 million, to provide an information-technology-based service-delivery system. As detailed in Chapter Three, Section 3.01, the system was seriously flawed and was characterized by its principal users as being, in many respects, a step back from what had been available to them previously. For example, the system:

- failed in many ways to meet ministry and municipal service-manager needs;
- made unexplained errors—for example, the system inexplicably sent about 7,000 payments totalling $1.2 million to ineligible individuals; and
- had internal control deficiencies that exposed the Ontario Works program to an unnecessary risk of misappropriation of funds.

In many respects, I consider the Ministry's involvement with Accenture to have been a very expensive lesson in how not to implement a new IT-based service-delivery system. Making the system work properly may well take much more time and will certainly take many more taxpayers' dollars. The way in which the Ministry applied the common purpose procurement process to acquire the consulting services in this case meant that the taxpayer took virtually all the financial and performance risks and the consultant reaped a disproportionately large share of the financial rewards.

CONSULTING SERVICES

We noted a dramatic increase in the government's reliance on consultants over the last five years. Specifically, total consulting expenditures have more than doubled since 1998 (from $271 million in 1997/98 to $662 million in 2001/02), with expenditures for IT consulting tripling (from $100 million to $313 million) and for management consulting increasing four-fold (from $40 million to $152 million). We therefore decided to conduct a value-for-money audit on consulting services at six selected ministries.

As detailed in Chapter Three, Section 3.06, we found that the ministries frequently did not obtain value for money when using consulting services. Of particular concern was the practice of engaging consultants on a per diem basis and not on the basis of clearly defined deliverables at a fixed price, especially in the development of multi-million-dollar IT projects. As a result, the ministries assumed the risks of consultants not delivering on time and of having to pay the cost of missed deadlines and cost overruns. We also noted other obstacles frequently hindering the attainment of value for money, such as a heavy dependence on the use of consultants, not selecting and acquiring consulting services on a competitive basis, and significant weaknesses in controls over payments to consultants. As well, we noted that the vendor-of-record guidelines established by Management Board Secretariat were ambiguous in some respects and were therefore difficult for ministries to apply.

Many of the obstacles noted above could have been overcome if the ministries had rigorously adhered to the rules set out by the Management Board of Cabinet regarding the acquisition and use of consulting services.

ACCOUNTING FOR THE GOVERNMENT'S FINANCIAL ACTIVITIES

AUDITOR'S REPORT ON FINANCIAL STATEMENTS

My opinion on the financial statements for the year ended March 31, 2002, which is clear of any qualifications or reservations, also covers the restatement of prior years' financial results presented in the province's statements this year. This restatement, which is discussed further in Chapter Five, largely resulted from the provisional recording of the substantial tax-remittance error made by the federal government's Canada Customs and Revenue Agency.

THE STRANDED DEBT OF THE ELECTRICITY SECTOR

As discussed more comprehensively in Chapter Five of this report, in my view there is an increasing risk that the stranded debt of the electricity sector, which is to be recovered from electricity ratepayers, may ultimately become, in part or completely, a liability of Ontario's taxpayers. I am of this view because the stranded debt has increased by about $700 million since the restructuring of the electricity sector on April 1, 1999 and because the financial performance of the electricity sector in the year ended March 31, 2002 was well below expectations and resulted in Ontario's taxpayers absorbing $341 million of electricity sector costs. As well, the earliest estimated defeasance date of the stranded debt has been delayed by two years, from 2010 to 2012.

In future considerations of privatizations in the electricity sector, I urge the government to carefully evaluate the impacts of each privatization on both the ratepayers' ability and the time required to defease the stranded debt.

MORE CONSISTENT AND INCLUSIVE ACCOUNTING

As explained in more detail in Chapter Five of this report, I am pleased that the government has announced its intention to adopt consistent accounting rules for all financial reports by converting Ontario's legislative spending control to the accrual basis of accounting. In past years, I urged the government to make this change so that the budget, the financial statements in the Public Accounts, and the Estimates (Appropriations) would all use the same accounting rules. In Chapter Five, I illustrate the impact of the accounting inconsistencies on 2000/01 health-care spending and on 2001/02 corporate tax revenue. The government plans to overcome this kind of inconsistency beginning in the 2003/04 fiscal year.

The government also announced that, effective April 1, 2003, it plans to account for tangible capital assets by recording them as assets and amortizing them over their useful life. This practice is similar to that followed in the private sector and would supersede the current practice of recording the assets as expenditures when they are paid for. This planned change represents, as outlined in Chapter Five, the implementation of an accounting standard of the Public Sector Accounting Board of the Canadian Institute of Chartered Accountants whose adoption I have been recommending for several years.

In Chapter Five of this report, I also advocate that the government include in its financial reporting those financial activities of school boards, universities, colleges, and hospitals that it has determined to be under its control. Such an accounting should present to Ontario's taxpayers the extent to which these organizations' actual expenditures, revenues, tangible capital assets, other assets, liabilities, and debts are controlled by the government.

BETTER INFORMATION FOR DECISION-MAKING

As I have emphasized in previous reports, having good information for decision-making is essential. Appropriate, reliable, and timely information enables decision-makers to accurately assess the economy, efficiency, and effectiveness of government programs and activities. Such information provides a critical base for decision-makers to decide whether to continue, discontinue, or change government programs and activities, including the use of alternative service delivery or common purpose procurement. Good administration of public funds depends on good decisions based on good information.

One of the significant themes of my Annual Report this year, as in past years, is that ministries still require improvements in the quality of their information about the economy and efficiency of the programs and services they deliver. We found that ministries often lacked adequate procedures for measuring and reporting program effectiveness, especially for those programs funded through transfer payments. Obtaining such information would offer significant opportunities to improve decision making, which would lead to an improved administration of public funds.

Many services paid for by government are being provided by service-delivery agents, and the government does not have access to information about the day-to-day operations of such agents. Since about half of our tax dollars go to these agents in the form of transfer payments, it is vital that the government know the extent to which they are achieving intended results and whether or not taxpayers are receiving value for money spent. The key to obtaining this knowledge is ensuring the availability of appropriate, reliable, and timely information.

TOWARDS BETTER ACCOUNTABILITY

As in previous reports, Chapter Two of this report highlights the importance of enacting my Office's long-standing proposed amendments to the *Audit Act* and the continuing need for a legislated accountability framework for the broader public sector. Chapter Two also discusses the Ontario Innovation Trust—specifically, the inadequacy of its accountability to the Legislature for the large sums of money transferred to it.

VALUE-FOR-MONEY AUDIT REPORT SUMMARIES

The following are summaries of the 11 value-for-money audits reported on in Chapter Three of this Annual Report.

3.01 Ministry of Community, Family and Children's Services Ontario Works Program

Under provisions of the *Ontario Works Act*, the Ontario Works program of the Ministry of Community, Family and Children's Services provides employment and temporary financial assistance to individuals on condition that they satisfy requirements intended to help them find and maintain paid employment. For the 2001/02 fiscal year, the Ministry's share of financial assistance provided to individuals was approximately $1.4 billion. The Ministry's share of costs for program administration was $171 million.

Since 1997, the Ontario Works program has been subject to a much needed and complex Business Transformation Project. (We previously reported on this project in our 1998 and 2000 reports.) This Project included the engagement of Accenture (formerly Andersen Consulting) to develop a new service delivery system under a Common Purpose Procurement (CPP) agreement. The intent of CPP was for the Ministry to work closely with the selected private-sector vendor to develop and implement new ways of delivering services and, in so doing, share the investment in and risks and rewards of the project. However, we concluded that the Ministry did not meet this objective in that it accepted most if not all of the risk for the Business Transformation Project while Accenture received a disproportionate amount of the rewards. Specifically we found:

- As of March 2002, the Ministry had paid Accenture $246 million, which is significantly more than the $180-million payment cap agreed to.
- The savings attributed to the Business Transformation Project and hence to Accenture were exaggerated.
- We reviewed the new service delivery system, which was fully implemented in January 2002, and we shared the view of municipal service manager staff that the system was in many respects a step back from what had previously been available to them, that it had been inadequately tested, and that it was not a finished product at the time of its release.
- Our own testing found that the new service delivery system had numerous unresolved defects, such as failing to provide certain needed information and providing information that was often inaccurate or in a form that was not useful. There were unexplained errors—for example, benefit payments totalling $1.2 million were sent to ineligible individuals—and there were significant internal control deficiencies.

With respect to the administration of the Ontario Works program, we concluded that the Ministry had little assurance that only eligible individuals received the correct amount of financial assistance. The primary reason for this was that ministry requirements for municipal service managers to determine recipient eligibility for financial assistance and to provide that assistance in the correct amount were often not met. For example, in the case of one of the service managers that we visited, 95% of the files we reviewed lacked at least one of the information requirements necessary to establish eligibility and to ensure the correct amount of assistance is paid.

We made recommendations for improving program delivery and received commitments from the Ministry that it would take corrective action.

3.02 Ministry of Finance Corporations Tax

Generally, the *Ontario Corporations Tax Act* imposes taxes on all corporations that have a permanent establishment in Ontario or that owned and received income from or disposed of real property in Ontario. For the 2001/02 fiscal year, the province recorded approximately $6.6 billion in corporations taxes ($9.2 billion for the 2000/01 fiscal year). The tax collection effort was carried out by 770 staff and cost about $45 million, of which 90% was for salaries and benefits.

We concluded that where corporations did not voluntarily comply with the provisions of the *Ontario Corporations Tax Act*, the Ministry did not have adequate policies and procedures in place to ensure that the appropriate amount of corporations tax was being declared and remitted by taxpayers in accordance with statutory requirements. It is our view that, as a result, the tax gap with respect to provincial corporations tax—that is, the difference between the amount of corporations tax actually collected and the amount that should be collected—may well be substantial. In this regard, we found that the Ministry did not assess or evaluate the extent to which the overall tax gap affected provincial corporations tax revenue, or the collection effort.

We noted an increase in the extent to which corporations did not voluntarily comply; of the 763,000 corporations with active accounts on the Ministry's tax roll, 355,000 corporations—or one in two—did not file required returns. In 1996, at the time of our last audit, about one in five corporations did not file required returns.

We also noted that the Ministry did not regularly compare all active registrants in the Ministry of Consumer and Business Services' (MCBS) database with those on the corporations tax roll to ensure that all corporations that are registered with MCBS and are required to file a tax return continue to be included in the corporations tax roll.

With respect to its function of auditing corporations tax returns, we found that for corporations with annual gross revenues of $500,000 and over, the number of desk audits completed was about half of the number planned. For the corporations that have gross revenues under $500,000, which represent about 87% of the total number of corporations on the tax roll, very few field or desk audits were performed. Although the Ministry has made a deliberate decision to rely on the Canada Customs and Revenue Agency for the audit of smaller corporations, we noted that it had not obtained the necessary information to assess whether such reliance is justified.

We made a number of recommendations for improvement and received commitments from the Ministry that corrective action would be taken.

3.03 Ministry of Health and Long-Term Care Community Mental Health

Through its Integrated Health Care Program, the Ministry provides transfer payments to community agencies or general hospitals to deliver community-based mental health programs and to help cover the costs for sessional fees, homes for special care, and other housing with supports for individuals with mental illness. During the 2001/02 fiscal year, the Ministry provided approximately $390 million in transfer payments for community-based mental health services. The Ministry estimated that approximately 2.5% of the population of Ontario, or 300,000 people, are seriously mentally ill.

We concluded that many of the fundamental issues and concerns identified in our audits over the last 15 years had not been comprehensively addressed. In particular, except in the case of assertive community treatment teams, the Ministry still had not clearly defined its expectations for community mental health. We also found that:

- In many areas of the province there is still no comprehensive source of information about available mental health services or how to access those services. In addition, there is minimal co-ordination among agencies providing services.
- The Ministry did not have sufficient information to enable it to assess whether mentally ill people were adequately cared for and whether funding provided for community-based mental health services was being prudently spent.
- The Ministry was not tracking the number of people receiving or waiting for community mental health services or the waiting times to access services. This limited its ability to assess whether there were sufficient and appropriate resources to meet the needs of the seriously mentally ill.
- The Ministry had not determined the number or type of housing spaces required to meet the needs of seriously mentally ill individuals or whether existing housing was meeting the needs of the individuals already housed.

Also, the Ministry had not given sufficient consideration to the funding of community mental health agencies based on an assessment of the number of patients requiring services and the complexity of patients' needs.

- In the seven regions of the province, annual per capita funding for community mental health services ranged from $11 to $60. The funding was primarily historically based, rather than being based on the relative need for services and the costs of delivering services in different regions of the province. Funding based on assessed need helps ensure that individuals with similar needs have access to similar services regardless of where they live in the province.
- Since 1992, there have been no increases in base funding provided to community mental health agencies for programs that were operating at that time. One district

health council noted that this forced community mental health agencies "to reduce services to the seriously mentally ill in order to stay within existing base budgets."

We made a number of recommendations for improvement and received commitments from the Ministry that it would take action to address our concerns.

3.04 Ministry of Health and Long-Term Care
Long-Term Care Facilities Activity

Long-term-care facilities provide care and services to individuals who are unable to live independently at home and require the availability of round-the-clock nursing service to meet their daily nursing and personal care needs. These facilities comprise nursing homes and homes for the aged.

The Ministry's key responsibility regarding the operations of long-term-care facilities is to ensure that they are delivering services to residents in accordance with their service agreements with the Ministry and in compliance with applicable legislation and ministry policies. For the 2001/02 fiscal year, long-term-care facilities received approximately $1.6 billion in funding from the Ministry and approximately $793 million in accommodation payments from residents.

We concluded that, in certain significant respects, the Ministry did not have all of the necessary procedures in place to ensure that long-term care resources were managed with due regard for economy and efficiency and that long-term care facilities were complying with applicable ministry policies. A number of our concerns were also reported on in our 1995 Annual Report. Our main concerns were as follows:

- The Ministry had not developed facility staffing standards or models for staff mixes for providing quality care. Accordingly, the Ministry did not have a sufficient basis for determining appropriate levels of funding.
- The Ministry had not addressed the results of a 2001 consulting report that noted that residents of Ontario's long-term care facilities received fewer nursing and therapy services than those in similar jurisdictions with similar populations.
- Although the Ministry inspected all long-term-care facilities in 2001, it did not adjust the depth of its inspections for facilities with a history of failing to meet ministry quality standards. We also noted that, contrary to legislation, none of the nursing homes in Ontario had current ministry-issued licences at the time of our audit. At least 15% of licences had expired more than one-and-a-half years ago. As well, most nursing homes that opened after 1998 had never been issued a licence.
- The Ministry was not adequately tracking complaints, unusual occurrences, and outbreaks of contagious diseases to identify and resolve systemic problems.
- Surplus funds were not being recovered from facilities on a timely basis. Ministry delays in completing reconciliations for the 1999 calendar year resulted in approximately $5 million in interest expenses being passed on to the taxpayers.

We also concluded that the Ministry's procedures for providing accountability to the public and ensuring that facilities provide services efficiently and effectively were impaired by:

- insufficient financial information from facilities to allow the Ministry to determine whether funds had been used in accordance with the Ministry's expectations; and
- the lack of outcome measures to address the appropriateness of services provided, including the quality of care received by residents.

Through its long-term-care redevelopment project, the Ministry allocated funding to build new long-term-care facilities containing approximately 20,000 new beds to regions of the province where the need for additional beds was the greatest. The Ministry was also providing financial assistance to ensure existing facilities meet minimum structural and environmental standards. However, the Ministry did not have a process in place for periodically reviewing whether its target of 100 beds per 1,000 individuals aged 75 and over was appropriate.

We made a number of recommendations for improvement and received commitments from the Ministry that it would take action to address our concerns.

3.05 Management Board Secretariat Electronic Service Delivery

Many governments, including Ontario, are increasingly using electronic means to provide information about government services to individuals and businesses, as well as to deliver some of those services. This method of providing services is known as electronic service delivery (ESD). Through ESD, the government is organizing and integrating services through call centers, interactive voice response systems, Web sites, e-mail, fax, CD-ROM, public access terminals and kiosks, and electronic payment systems.

In June 2000, the Management Board of Cabinet approved a government-wide ESD strategy aimed at improving the quality of service to Ontarians and businesses by providing client-focused, integrated, accessible, and cost-effective government services electronically. The government plans to have over 80% of the services it delivers available through electronic means by 2003. The Management Board Secretariat (MBS) is responsible for the government's ESD strategy.

The government has set ambitious targets for ESD and is committed to increasing "Ontarians' satisfaction with government services by becoming a world leader in delivering services on-line" by 2003. Although significant strides have been made in implementing ESD to date, we concluded that the government will likely fall short of meeting its ESD targets if it does not accelerate the pace of ESD implementation. A more proactive and hands-on central management of the ESD initiative is needed. In addition, we noted that communications efforts to promote ESD have been insufficient to increase public awareness and use of services delivered electronically.

We reviewed four high-impact service delivery projects at the ministries we visited and noted that there was room for improvement with respect to a number of security and service availability issues.

We made recommendations for improvements in each of these areas and received commitments from the Ministry that the necessary corrective actions would be taken.

3.06 Management Board Secretariat and the Ministries of the Environment, Finance, Health and Long-Term Care, Natural Resources, and Public Safety and Security

Consulting Services

Consulting services, as defined under the Management Board of Cabinet Directive on Consulting Services (Directive), are services provided for a fee, on the basis of a defined assignment, and relating to management consulting, information technology (IT) consulting, technical consulting, and research and development.

Over the past five years, there has been a substantial increase in annual consulting services expenditures at Ontario ministries, from $271 million in 1998 to $662 million in 2002. Our audit encompassed the following six selected ministries (the Ministries): Management Board Secretariat (MBS), Environment, Finance, Health and Long-Term Care, Natural Resources, and Public Safety and Security (Public Safety and Policing Services Divisions, constituting the former Ministry of the Solicitor General). For the 2001/02 fiscal year, these ministries incurred $293 million in consulting services expenditures.

Our audit concluded that, in many respects, consulting services were not acquired and managed with due regard for value for money. The following is a summary of our major concerns:

- There was a heavy dependence on the use of consultants. Hundreds of consultants were engaged at per diem rates that were on average two to three times higher than the salaries of ministry employees performing similar duties. For instance, over half of the IT workforce at the Ministry of Public Safety and Security was made up of consultants, including 40 former ministry employees who, within a few days of having left the Ministry, returned at per diem rates that were more than double their salaries as employees.
- The Ministries often awarded continuous agreements to the same consultant with little or no change to the original deliverables. For example, a consultant engaged by the Ministry of Health and Long-Term Care on a six-month assignment at $96,000 was awarded successive contracts that extended the term to two years and resulted in a total cost of $360,000. The consultant was eventually replaced with a full-time staff member at an annual salary of approximately $60,000

- In the development of multi-million-dollar IT projects, the Ministries often engaged consultants on a per diem basis to do the work instead of calling for open tender. This lack of open tendering did not ensure that the most qualified consultants were acquired at the best available price and that all suppliers of consulting services were given fair access and treated in an open and transparent manner. In addition, by compensating consultants on a per diem basis and not on the basis of a fixed price and fixed deliverables, the Ministries assumed the risk and cost of consultants not delivering their work on time, even when such problems may have been caused by unsatisfactory performance and inefficiencies on the part of the consultants.
- A forensic accounting firm was engaged by MBS to review certain real-estate transactions entered into by the Ontario Realty Corporation. While its estimated fees ranged from $150,000 to $500,000, the firm was paid almost $6 million for expanded work, and a new contract was not entered into to reflect the revised scope and objectives of the ongoing investigative work.
- The Ministries frequently did not ensure that consultants' provincial taxes were in good standing. At MBS, two consultants in our sample had tax arrears of approximately $110,000 and $35,000 respectively. At the Ministry of Public Safety and Security, two consultants who received contracts were in default for not filing corporate tax returns.
- There were significant weaknesses in controls over payments to consultants. For example:
  - The Ministry of the Environment and the Ministry of Public Safety and Security made numerous payments to consultants that exceeded the ceiling price of contracts. We found no evidence of prior approvals by the Deputy Minister or designate as required by the Directive.
  - At MBS, one consultant's rates were permitted to increase significantly, from $725/day in April 2000 to $1,800/day in May 2000 and to $2,600/day in September 2000, without documented rationale for these large increases. As well, one consulting firm was reimbursed for meal charges at ten times the rates allowed to government employees.
  - At the Ontario Realty Corporation (ORC), one consulting firm was paid over $1 million even though it only had written agreements with ORC that together had a billing maximum of $210,000.

We made a number of recommendations for improvement and received commitments from all the Ministries that they would take corrective action.

3.07 Ministry of Natural Resources Ontario Parks Program

The Ontario Parks Program of the Ministry of Natural Resources is responsible for managing provincial parks and protected areas in support of the Ministry's vision of sustainable development of natural resources and its mission of managing such resources for ecological sustainability. The primary objectives of the Program are to protect natural resources, provide recreational opportunities, develop tourism, and enhance appreciation of the province's natural and cultural heritage. At the time of our audit there were 277 provincial parks covering over 70,000 km^2.

Overall, we concluded that, in many respects, the Ministry did not ensure compliance with the legislation and policies designed to ensure the sustainable use and development of park resources and that the Ministry did not have adequate procedures in place to measure and report on the effectiveness of the Program. In addition, we noted a number of instances where procedures to ensure due regard for economy and efficiency needed to be improved. Specifically, we observed the following:

- The enforcement activity that was carried out was inadequate in that over 70% of park superintendents indicated that parks were not being effectively patrolled. As a result of the Ministry's not meeting its protection mandate, natural resources had been adversely affected and in some cases destroyed.
- The Ministry had management plans in place for only 117 of the 277 provincial parks. Such plans are essential if animal and plant life resources are to be managed and protected. We noted instances where inadequate planning and a lack of action resulted in uncontrolled wildlife growth and habitat destruction that threatened the sustainability of other species.
- The Ministry did not have an overall strategy in place to manage species at risk of extinction in the province even though the *Endangered Species Act* has been in force since 1971. Of the 29 species deemed by regulation to be at risk, only five had recovery plans in place. Three species that did not have recovery plans in place can no longer be found in Ontario.
- Customer service standards were not met for the parks' Computer Reservation and Registration Accounting System that was operated by a private service provider. Over 65% of our sample telephone calls were not answered either because of a busy signal or because we were put on hold for 15 minutes, after which time we hung up the phone.

We made recommendations for improvements in each of these areas and received commitments from the Ministry that it would take corrective action.

3.08 Ministry of Public Safety and Security Community Services Program

The Ministry's Community Services Program is responsible for supervising all adult offenders (18 years of age and older) and young offenders (16 to 17 years of age) who are under some form of conditional release—that is, who are on probation, serving a conditional sentence, or on parole. The objectives of the Program are to protect the public by monitoring offenders in the community and to rehabilitate offenders through training, treatment, and services that afford them opportunities for successful personal and social adjustment in the community.

On any given day, there is an average of 65,000 offenders being supervised by the Ministry in the community. Of these offenders, 95% were on probation, 4% were serving conditional sentences, and the remaining were on provincial parole.

At March 31, 2002, the Ministry employed approximately 770 probation and parole officers throughout the province. In addition, as part of the Program, the Ministry contracts with selected community agencies to provide a variety of counselling and treatment programs. In 2001/02, total program expenditures amounted to approximately $82 million.

Since our last audit in 1995, the Ministry, in 1999, initiated a new offender management model, which highlights offenders' correctional needs that should be addressed to effectively reduce the risk of offenders reoffending. While we acknowledged that the Ministry was in the process of implementing this new model, we concluded that there were a number of deficiencies in its procedures that hindered the effective supervision of offenders in the community. For instance:

- At the offices we visited, over 40% of offenders who had committed additional "level I" offences while under ministry supervision lacked a risk and needs assessment and/or a management plan. (Level I offences include sexual assault, assault causing bodily harm, uttering death threats, and other violent crimes.)
- At the five offices we visited, of the cases involving level I offenders who later committed additional offences while under supervision, we noted that over 30% had not been followed up on a timely basis after the offender failed to comply with the conditions of their supervision.
- We estimated there were approximately 10,000 arrest warrants outstanding for offenders in the community, including some that had been issued as far back as 10 years. Many of these offenders were assessed as high risk and had committed serious offences, such as sexual assault and assault causing bodily harm. The Ministry did not know how many of the offenders against whom there were arrest warrants outstanding were still at large.

  While we recognize that once a warrant is issued, the police—not ministry staff—are responsible for apprehending the offenders, the Ministry and the police need to work more closely together so as not to expose the community to significant risk.
- According to a ministry report, correctional programs for offenders were often not available in their local community. For example, of the over 3,000 sex offenders being supervised by the Ministry, fewer than 600 received appropriate rehabilitation programs.

We made a number of recommendations for improvement and received commitments from the Ministry that it would take corrective action.

3.09 Ministry of Public Safety and Security
The Ontario Parole and Earned Release Board

The Ontario Parole and Earned Release Board (Board) makes decisions about parole for offenders sentenced to less than two years of imprisonment. Offenders are eligible for parole upon serving one-third of their sentences. Offenders that are granted parole serve the full length of their sentences (one-third in an institution followed by two-thirds in the community under supervision and conditions set by the Board); offenders that are not granted parole are released from an institution after serving two-thirds of their sentences. Effectiveness in contributing to the safety of society requires the Board to help more low-risk offenders successfully reintegrate into the community by controlling the timing and conditions of their release.

For the 2001/02 fiscal year, the Board had four full-time and over 40 part-time members with total expenditures of approximately $3 million. In the 2000/01 fiscal year, there were approximately 2,100 parole hearings, of which 28% resulted in parole being granted.

We concluded that the Board's mandate of protecting society by effectively reintegrating offenders into the community was hindered by a dramatic reduction in the number of eligible inmates being considered for parole. The decline in the number of hearings from 6,600 to 2,100, combined with a steady drop in parole grant rates from 59% to 28%, has resulted in fewer than 600 inmates being granted parole in 2000/01, as compared to 3,800 in 1993/94.

According to board studies, factors contributing to this decline included inmates not receiving the required parole information and inmates waiving parole hearings because they felt there was little chance of getting a fair and unbiased hearing. As well, significant numbers of offenders were denied the opportunity to have their cases heard as a result of widely differing practices among different regions.

In addition, we found that although Ontario's parole grant rates have significantly declined since 1993/94, its rates of parolees re-offending during parole have been generally higher since that same time. This situation requires research by the Board to determine what further action, if any, is required.

We also noted that:

- The Board often did not obtain all relevant information before rendering parole decisions, nor did it record the rationale for its decisions to not impose special conditions that were recommended by parole officers or police.
- The Board set performance goals for 2001/02 that were below those already achieved; thus, its goals do not serve to encourage an improvement in board performance.

- Ontario had no formal selection process to assess the abilities, skills, commitment, and suitability of potential board members, nor did the Board have the opportunity to provide input on the initial screening of potential candidates.

We made a number of recommendations for improvement and received commitments from the Board that it would take corrective action.

3.10 Ministry of Tourism and Recreation Tourism Program

The Ministry of Tourism and Recreation estimates that the tourism industry employs approximately 500,000 people and generates $17 billion for the Ontario economy. The Ministry's Tourism Program (Program) is responsible for promoting tourism in Ontario. The role of the Ontario Tourism Marketing Partnership Corporation (Corporation), a ministry agency, is to market Ontario as a tourist destination. For the 2001/02 fiscal year, tourism operating expenditures totalled $83 million, of which $52 million was spent by the Corporation.

Ministry statistics indicate that the number of tourists visiting Ontario has gradually declined over the past 10 years. The decline results from a 25% decrease in the number of domestic tourist visits (including those made by Ontario residents), which was partially offset by an increase in international tourist visits.

We concluded that the Ministry and the Corporation did not have sufficient procedures to measure and report on the effectiveness of the Program in promoting tourism in Ontario. In its annual business plan, the Ministry did not report the actual results achieved for any of its previously published performance measures, and, after three years of operation, the Corporation had not submitted an annual report to the Legislature as required.

Given the significance of tourism to the Ontario economy, we also concluded that the Ministry needs to take a leadership role in developing a long-term tourism strategy to help co-ordinate the activities of the many organizations that contribute to the promotion of tourism in the province. We also found that the Ministry and the Corporation did not have adequate procedures in place to ensure that the Program was delivered with due regard for economy and efficiency. Specifically, we noted the following:

- There was no process in place to collect information on the tourism-related activities undertaken by other ministries or on the financial support provided by other ministries to the tourism industry. As a result, there was a risk of overlap and duplication of tourism-related programs and services.

- Tourism publications were not sufficiently comprehensive and were not published on a timely basis. For example, the Corporation's main tourism guide lists only 1,400 of an estimated 8,000 tourism facilities, and the 2001/02 winter events guide was not published until December 2001 and contained listings for events that had already taken place.

- The promotion of accommodation rating systems in Ontario has not been adequately co-ordinated between the ministries and the private sector. As a result, Ontario is one of only a few leading tourist destinations that does not have province-wide quality standards.
- In many instances, the acquisition of management consulting services was not justified by a business case, nor were related contracts signed on a timely basis. Moreover, several contracts were awarded directly to the vendor without competition, and other projects were split into separate contracts, thus allowing the Ministry to avoid open competition requirements.

We made recommendations for improvements in each of these areas and received commitments from the Ministry that it would take corrective action.

3.11 Ministry of Training, Colleges and Universities Training Division

The mandate of the Training Division (Division) of the Ministry of Training, Colleges and Universities is to set standards for employment services and adult literacy, to help employers develop a skilled workforce to stay competitive, and to provide leadership on labour-market and training issues. The Division's programs and services are intended to assist both individuals and employers in increasing skill levels and to help individuals make the transition from unemployment to employment and from education and training to the labour force.

Division expenditures for the 2001/02 fiscal year totalled $346.3 million. Our audit focused on the following major programs: Job Connect; Summer Jobs Service; Apprenticeship; and Literacy and Basic Skills. These programs account for approximately 75% of the Division's expenditures.

Colleges of Applied Arts and Technology (community colleges), school boards, and community-based, not-for-profit organizations form the network of agencies responsible for delivering three of the major transfer-payment programs: Job Connect; Summer Jobs Service; and Literacy and Basic Skills. Employers are the primary deliverers of apprenticeship training, while community colleges and private training institutions that are funded by the Ministry and the federal government deliver in-school training assistance.

We concluded that the systems and processes necessary to ensure that services are delivered economically and efficiently and that the programs' objectives and expected outcomes were being achieved had not been completed. Some of our specific observations included:

- Efforts to co-ordinate enforcement responsibilities and share information with the Ministry of Labour and other bodies responsible for workplace inspections have not been sufficient to determine the extent to which uncertified individuals are working in restricted trades. Effective enforcement of restricted trades is necessary to ensure legislated objectives for protecting public and workplace safety are met and to maintain the value of obtaining certification in restricted trades.

- The Ministry was not monitoring the quality of apprenticeship training provided by employers and in-school training providers.
- The Ministry had not linked funding for providers of in-school apprenticeship training and for delivery agencies of Literacy and Basic Skills services to their performances in providing quality training. The systems and procedures needed to collect and report meaningful performance information were under development.

We also found that the Ministry did not adequately control the acquisition and management of about $11 million worth of consulting and other services that were acquired on the Ministry's behalf through not-for-profit agencies over the last several years. In particular, the Ministry did not adhere to prudent purchasing practices and did not obtain the approvals from the Minister and Management Board of Cabinet that would have been required if the projects had been undertaken and the services acquired by the Ministry directly. Our findings included that:

- Services amounting to about $8 million were acquired from private-sector suppliers with little or no competition.
- GST charges totalling $600,000 were incurred because the agencies were not GST-exempt—$235,000 of that amount was overbilled and should be recovered.

We made a number of recommendations for improvement and received commitments from the Ministry that it would take corrective action. Some corrective actions were underway at the time of our audit.

CHAPTER TWO

Towards Better Accountability

In all previous years, I have used Chapter Two of my report to address specific issues of governance and accountability in government. Again this year, I am bringing forward issues that warrant discussion to improve accountability to the Legislature for the prudent use of public funds. These are:

- legislative proposals for better public-sector accountability; and
- continued concerns regarding public accountability for the Ontario Innovation Trust.

LEGISLATIVE PROPOSALS TO IMPROVE PUBLIC-SECTOR ACCOUNTABILITY

STATUS OF RECOMMENDATIONS FOR AMENDMENTS TO THE AUDIT ACT

In my 2001 Annual Report, I was pleased to note the government's intention to amend the *Audit Act* as announced in its Speech from the Throne on April 19, 2001. The 2001 Throne Speech announcement to amend the *Audit Act* was intended to permit the Provincial Auditor to assess the extent to which organizations funded by Ontario taxpayers use that money prudently, effectively, and for the purposes intended. Inconclusive discussions on a comprehensive set of amendments took place during the summer and fall of 2001 between my Office and the former Minister of Finance, the Honourable Jim Flaherty, and his staff.

I want to reiterate that I am of the view that all transfer-payment partners should be subject to legislated public accountability, including performance reporting and a full-scope legislative audit regime, because provincial monies flowing to grant-recipient organizations continue to represent the single most significant demand on the province's financial resources, with about 50% of total government expenditures flowing to grant-recipient organizations. Under the current *Audit Act,* the Provincial Auditor may carry out only limited-scope audits of grant recipient organizations by examining their accounting records to determine whether the grants were used for the intended purposes. This limitation on access to information prevents my Office from conducting full-scope value-for-money audits of grant-recipient organizations.

For the past 11 years, my Office has, with the support and repeated recommendations of the Standing Committee on Public Accounts, pursued amendments to the *Audit Act*. These amendments would provide the Provincial Auditor with the discretionary authority to perform full-scope value-for-money audits of organizations that derive a very significant portion of their income from provincial grants—such as school boards, hospitals, community colleges, and universities.

More recently, the major thrust of my proposed amendments to the *Audit Act* have been included in Bill 5, entitled *An Act to amend the Audit Act to insure greater accountability of hospitals, universities and colleges, municipalities and other organizations which receive grants or other transfer payments from the government or agencies of the Crown.* Bill 5 was introduced on April 23, 2001 by Mr. John Gerretsen, Chair of the Standing Committee on Public Accounts. The Bill passed second reading on June 20, 2002 and was referred to the Standing Committee on Public Accounts for detailed review.

It is expected that the Standing Committee on Public Accounts will hold hearings on Bill 5 in fall 2002.

THE PROPOSED PUBLIC-SECTOR ACCOUNTABILITY ACT

Since 1993, I have advocated a legislated accountability framework for the broader public sector. In 1993, the Standing Committee on Public Accounts, by way of a unanimous motion, supported my pursuit of a workable legislated accountability framework. As reported in our *1993 Annual Report*, the following are two of the primary reasons for advocating such an accountability framework:

- The Legislative Assembly and the ministers need better legislated or regulatory tools to establish greater accountability for the economy, efficiency, and effectiveness of program delivery. A framework that is legislated becomes a tool of the Legislative Assembly, of the ministers, and of the funding ministries and agencies that can be used to help ensure cost-effective program and service delivery.
- Ministry management and recipients of transfer payments need a framework to hold them accountable for the economy, efficiency, and effectiveness of their activities. Such a framework would also enhance the effectiveness of my Office's work.

Following through on an announcement from the *1997 Ontario Budget* to establish a legislated accountability framework to improve accountability in the public sector, the government announced in its Speech from the Throne on April 19, 2001—under the heading "Holding the Broad Public Sector Accountable to Taxpayers"—that it would be introducing sweeping reforms to ensure that all public-sector institutions are accountable to the citizens of Ontario. In this regard, the *2001 Ontario Budget* contained a proposal to introduce a new Public Sector Accountability Act, which would require all major public-sector organizations that receive taxpayer dollars from the government to report annually on their performances and present annual business plans and to balance their budgets every year.

The government's proposal also addresses one of the recommendations of the Ontario Financial Review Commission in its 2001 report entitled *Raising the bar: Enhanced accountability to the people of Ontario*. Having served as Special Advisor to the Commission, I was encouraged by the Commission's recommendation that the government introduce legislation incorporating an accountability framework.

On May 9, 2001, the then Minister of Finance introduced for first reading Bill 46, *An Act respecting the accountability of public sector organizations*. However, Bill 46 has not advanced on the legislative calendar.

CONCLUSION

To facilitate good performance and accountability and to ensure that taxpayers' money is spent prudently and for the purposes intended, both a legislated accountability framework and a full value-for-money legislative audit regime need to be applied to the broader public sector. I again strongly urge the government to enact my proposed amendments to the *Audit Act* and the proposed *Public Sector Accountability Act*. Once approved by the Legislative Assembly, I look forward to applying the amended *Audit Act* to a legislated accountability framework.

On behalf of the Legislative Assembly, I will continue to advocate for improvements in public-sector accountability and will also continue to monitor government initiatives and developments in this important area.

ONTARIO INNOVATION TRUST

Since 1999, the government has transferred $750 million to the Ontario Innovation Trust (Trust). The Trust was established during the 1998/99 fiscal year to be an arm's-length entity for the purpose of providing funding to increase the capability of Ontario universities, colleges, hospitals, and other non-profit organizations to carry out scientific research and technology development.

In my past three Annual Reports, I have raised accountability concerns about the Trust, including:

- the inability of the government and the Legislature to obtain assurance that the Trust is spending public funds prudently and for the purposes intended and to take corrective action if it is not;
- the lack of ministerial accountability to the Legislative Assembly for the Trust's activities; and
- the fact that, as the province's Legislative Auditor, I am not permitted, under my current mandate, to conduct value-for-money audits of the Trust or inspection audits of the beneficiaries of the Trust's grants.

In addition to these accountability concerns, I also commented in my past three reports about the consequences and the appropriateness of the accounting treatment of the endowments to the Trust. Although technically in accordance with accounting rules established by the Canadian Institute of Chartered Accountants for government, the timing of the grant approvals allowed the government to recognize the expenditures in the years before the Trust actually disbursed funds to the intended grant recipients. This resulted in a significant exaggeration in the amounts that were reported as having been spent on innovation in the 1998/99 and 1999/2000 fiscal years. In fact, at the end of the Trust's first year of operation—March 31, 2000—the accounts of the province gave the impression that the government had spent $750 million (the total flowed to the Trust from the province) on innovation expenditures, when only $2.5 million had actually been disbursed for eligible projects in that year. The accounting treatment applied also allowed the government to distort financial results in the first year and in subsequent years.

After the Trust's first year of operation, I concluded that a significant amount of the $750 million was preflowed to the Trust well before it actually required the funds. For the three-year period ending on March 31, 2002, the Trust had only disbursed $240 million for eligible projects, and it held $577 million of taxpayers' funds without an accountability requirement to the Legislative Assembly.

The *2002 Ontario Budget* included a $300 million enhancement to the Trust. This additional commitment to the Trust will, when paid, bring the government's total transfer to the Trust to over $1 billion.

I continue to hold the view that all transfer-payment partners should be subject to legislated public accountability, including performance reporting and a better legislative audit regime. This would permit the Legislature to evaluate what was accomplished with the funding provided and to ensure that any necessary corrective action is being taken.

During the past audit year, the Standing Committee on Public Accounts held a meeting with the officials of the Trust to review my past commentary. The Committee acted on my concerns and, in fall 2002, tabled in the Legislature its recommendations to improve public accountability and provide for a better legislative audit regime for the Trust.

CHAPTER THREE

Reports on Value-for-money (VFM) Audits

Our value-for-money audits are intended to examine how well the government's programs and activities are being managed and whether they comply with relevant legislation and policies and, where appropriate, to identify opportunities for improving on the economy, efficiency, and effectiveness of their operations. These audits are conducted in compliance with subsection 12(2) of the *Audit Act*, which requires the Office to report on any cases observed where money was spent without due regard for economy and efficiency or where appropriate procedures were not in place to measure and report on the effectiveness of programs. This chapter contains the conclusions, observations, and recommendations for the value-for-money audits conducted in the past audit year.

Because of the size and complexity of the province's operations and administration, it is impossible to audit each program every year. Instead, the Office selects which programs and activities to audit on a cyclical basis, so that all major programs and activities are audited about every five years. The programs and activities audited this year were selected by the Office's senior management based on various criteria, such as a program's financial impact, its significance to the Legislative Assembly, related issues of public sensitivity and safety, and the results of past audits of the program.

We plan, perform, and report on our value-for-money work in accordance with the professional standards for assurance engagements, encompassing value for money and compliance, established by the Canadian Institute of Chartered Accountants.

Before beginning an audit, our staff meet with auditee representatives to discuss the focus of the audit. During the audit, staff maintain an ongoing dialogue with the auditee to review the progress of the audit and ensure open lines of communication. At the conclusion of the audit field work, a draft report is prepared, reviewed internally, and discussed with the auditee. The Provincial Auditor and senior office staff meet with the deputy minister or agency head to discuss the final draft report and to finalize the management responses to our recommendations, which are then incorporated into each of the VFM sections.

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MINISTRY OF COMMUNITY, FAMILY AND CHILDREN'S SERVICES

3.01–Ontario Works Program

BACKGROUND

Under provisions of the *Ontario Works Act*, the Ministry of Community, Family and Children's Services provides employment and temporary financial assistance to individuals on condition that they satisfy requirements intended to help them find and maintain paid employment. Financial assistance is provided through the Ontario Works program (Ontario Works) and is intended to be spent on basic living expenses for such things as food, clothing, personal needs items, and shelter.

Examples of Typical Monthly Benefit Payments

	Single Individual ($)	Sole-support Parent with One Child ($)	Couple with Two Children ($)
Basic Allowance	195	446	576
Maximum Shelter Allowance	325	511	602
Maximum Assistance	**520**	**957**	**1,178**

Source of data: Ministry of Community, Family and Children's Services

Additional assistance is available based on established need. Examples of items for which such assistance may be provided if circumstances warrant include:

- health-related necessities, such as diabetic, surgical, and other medical supplies;
- back-to-school and winter clothing allowances for eligible children;
- basic dental and vision care; and
- community and employment start-up benefits to assist in the cost of establishing a permanent residence or starting a new job.

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- back-to-school and winter clothing allowances for eligible children;
- basic dental and vision care; and
- community and employment start-up benefits to assist in the cost of establishing a permanent residence or starting a new job.

To be eligible for financial assistance, applicants must demonstrate a need for assistance by providing evidence that their liquid assets and income levels do not exceed specified amounts. Most individuals are also required to sign a participation agreement that requires them to take part in one or more of the following employment-assistance activities:

- employment-support activities, which help participants become job ready through basic education, job-specific skills training, literacy training, or the Learning Earning and Parenting program for young parents to help them finish high school and prepare for the job market;
- community participation, which provides unpaid placements in community-service activities designed to better the community and provide participants with practical work experience; and
- employment placement and support to self-employment, which, respectively, place employment-ready participants in unsubsidized, competitive jobs or support them in pursuing self-employment opportunities.

Since April 1, 1999, Ontario Works has been delivered on behalf of the Ministry by 47 Consolidated Municipal Service Managers and First Nation delivery agents (collectively known as service managers). Funding for financial assistance to recipients through Ontario Works is cost shared between the province (80%) and the service managers (20%). Administration costs are shared equally by the province and service managers up to an annually established maximum for each service manager.

For the 2001/02 fiscal year, the Ministry's share of financial assistance benefits provided under Ontario Works was approximately $1.4 billion. The Ministry's share of costs for program administration was $171 million. Ontario Works' average monthly caseloads and consequent expenditures have steadily decreased in recent years as illustrated by the table below.

Average Monthly Caseloads and Ministry Expenditures, 1999/2000–2001/02

	1999/2000	2000/01	2001/02
	Monthly Caseload Data		
Average monthly caseloads	262,436	215,614	189,321
Number of dependents	315,547	253,908	222,945
Total beneficiaries	577,983	469,522	412,266
	Annual Ministry Expenditures ($ million)		
Financial assistance for the year	1,752	1,491	1,372
Administration costs for the year	172	179	171

Source of data: Ministry of Community, Family and Children's Services

The Ministry has also taken the initiative for, and has borne the cost of, an ambitious, province-wide revision of the information technology system and business processes to support the delivery of its social-assistance programs. This undertaking, called the Business Transformation Project, was, in part, to support the modernization of older computer systems and business processes at the limit of their usefulness into a new system that could deliver the new Ontario Works and the Ontario Disability Support programs efficiently and effectively.

The new service-delivery system, including both a new information technology system and revised business processes, was implemented across the province by January 2002. This system was developed at a cost of approximately $400 million, as of March 2002, by the Ministry and Accenture (formerly known as Andersen Consulting), the arrangement for which was the subject of an audit and report by the Provincial Auditor in 1998; a Special Report to the Standing Committee on Public Accounts in 1999; and a follow-up report in our *Special Report on Accountability and Value for Money* (2000) on the Ministry's implementation of recommendations from the Provincial Auditor's 1998 Annual Report.

AUDIT OBJECTIVES AND SCOPE

Our audit objectives for Ontario Works were to assess whether the Ministry:

- ensured that its established policies and procedures for the program were adequately adhered to by service managers to ensure that only eligible individuals received financial assistance and that the financial assistance provided was in the correct amount; and
- monitored the effectiveness of the program in meeting its objectives, and, where necessary, took corrective action.

The scope of our audit included a review and analysis of relevant ministry files, policies, and procedures as well as interviews with appropriate staff at the Ministry's head office and three regional offices. We also held discussions with staff of three Ontario Works intake-screening units, reviewed a sample of recipient files and held discussions with staff at the three service managers we visited, and obtained information from other service managers by means of a questionnaire. The intake units and service managers we visited together accounted for almost 40% of total program expenditures.

Prior to the commencement of our audit work, we identified the audit criteria that we would use to conclude on our audit objectives. These were reviewed with and agreed to by senior management of the Ministry.

Given the critical importance of the new service-delivery system to the current administration of Ontario Works and the fact that it was substantially completed and implemented across the province between May 2001 and January 2002, we also followed up on the recommendations we made in our 1998 Annual Report and those made by the Standing Committee on Public Accounts in 1999 regarding the administration of the agreement between the Ministry and Accenture and assessed the adequacy of the new business processes and information technology system that were developed as a result of it.

Our audit work was primarily conducted in the period from November 2001 to May 2002, with emphasis on program expenditures and procedures during the 2000/01 and 2001/02 fiscal years. We concentrated on areas with the largest program expenditures—basic needs and shelter assistance and community and employment start-up benefits. Our audit was performed in accordance with the standards for assurance engagements, encompassing value for money and compliance, established by the Canadian Institute of Chartered Accountants, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In 1999, the Ministry's Comprehensive Audit and Investigations Branch issued a quality assurance audit report on the implementation of the Consolidated Verification Process (a new process for determining recipient eligibility) in three municipal pilot sites. We reviewed this report but did not rely on the work performed since it did not address many of the issues covered in our report and predated the introduction of the Ministry's new service-delivery system, which was implemented during 2001/02.

OVERALL AUDIT CONCLUSIONS

Both the Overall Audit Conclusions and the Detailed Audit Observations portions of this report are divided into two distinct sections: Part One deals with the administration of the agreement between the Ministry and Accenture; and Part Two deals with the administration of Ontario Works.

Part One: Administration of the Agreement

Although the new business processes and information technology system resulting from the Business Transformation Project were rolled out to all service managers between May 2001 and January 2002, at the time of our audit, most of the expected benefits to program delivery remained to be realized. For example:

- Most service-manager staff we communicated with expressed considerable dissatisfaction with the Business Transformation Project, stating, for example, that the new service-delivery system was in many respects a step back from what had been available to them previously, that it had been inadequately tested, and that it was essentially still a work in progress rather than a finished product at the time of its release.
- The new system did not provide service managers with accurate and reliable expenditure information for billing the Ministry for its share of the financial assistance provided to Ontario Works recipients. We were informed that prior to the introduction of the new system, such information had been readily available.

With respect to the administration of the Business Transformation Project, we found the following:

- The Ministry paid Accenture $246 million to March 2002, which was significantly more than the original $180-million payment cap. In our view, the basis for these payments continues to be questionable because:
  - savings attributed to the Business Transformation Project and hence to Accenture were exaggerated; and
  - contrary to the recommendations of the Provincial Auditor and the Standing Committee on Public Accounts to minimize out-of-cap expenditures, the Ministry paid Accenture $66 million outside the original $180-million payment cap. Of that amount, $22.2 million related to work that the Ministry had agreed to do in January 2001 and later but was unable to perform.
- The new service-delivery system did not adequately support the administration of Ontario Works because of numerous unresolved systems defects. Business Transformation Project staff considered many of these defects to be emergency or high-priority items in need of repair. The deficiencies can generally be categorized as:
  - *A failure to meet ministry or service-manager needs:* The new information technology system often failed to provide needed information, provided it inaccurately, or provided it in a form that was not useful. Service-manager staff reported they found the system complicated to use and, for example, had great difficulty in determining why overpayments to recipients had been created and why they were recorded.
  - *Unexplained errors or omissions:* For example, in 2001, the information technology system inexplicably sent 7,110 discretionary benefit payments worth a total of $1.2 million to ineligible individuals. Also, at times the system did not permit caseworkers to issue cheques, which necessitated the issuing of manual cheques, and, at other times, it did not permit manual cheques to be recorded.
  - *Internal control deficiencies:* The information technology system exposed the program to an unnecessary risk of misappropriation of funds by allowing the same person to open new files, change banking information, make payments, and close the files without supervisory review or approval and with little chance of the changes being detected.

Part Two: Administration of the Program

With respect to the administration of Ontario Works, we concluded that the Ministry did not ensure that service managers adequately adhered to the Ministry's policies and procedures for the administration of Ontario Works and, therefore, had little assurance that only eligible individuals received financial assistance in the correct amount. For example, we found the following:

- Intake-screening units and the resultant two-step process for eligibility assessment were not meeting the anticipated objective of significantly reducing the number of lengthy in-office interviews for eligibility assessment.

- Ministry requirements for service managers to determine recipient eligibility for financial assistance and to provide that assistance in the correct amount were often not met. For example, for one of the service managers we visited, 95% of the files we reviewed lacked at least one of the information requirements necessary for establishing eligibility and the correct amount of assistance to be paid.
- Other income reported by recipients of financial assistance that should have been deducted in whole or in part was often reflected incorrectly or not reflected at all in the benefits paid.
- The reasonableness of payments for community and employment start-up assistance could often not be established, and, in some cases, the assistance was provided in excess of the maximum allowable amounts.
- When spousal and child support was potentially obtainable from a former partner, we frequently found no evidence to indicate that it was being pursued. If such support is obtained, the amount of assistance paid by Ontario Works is reduced by the amount of that support.
- The lack of accurate and reliable information about overpayments and inadequate computer system support for the collection function contributed to the inadequacy of service managers' efforts to collect overpayments.

We also concluded that the Ministry needed to improve its monitoring of the effectiveness of the program to determine whether it was meeting its objectives because:

- Although it often cited decreases in the numbers of people receiving benefits as an indication of success, it had little information as to whether their departures were linked to positive program outcomes or had occurred for other reasons.
- The circumstances under which specific termination codes indicating the reasons for recipients leaving the program were to be used were often not clearly communicated or well understood. Consequently, the codes were applied inconsistently by service managers and could not reliably be used to gather information on program outcomes.

OTHER MATTER

The Ministry reimburses service managers for 50% of administration costs up to an annual, negotiated amount. However, we found the Ministry had not assessed the cost-effectiveness of this funding, which was based on past funding amounts and not on actual caseloads. Ministry funding for administration costs ranged from a high of $1,596 per case to a low of $273 per case.

Overall Ministry Response

The Business Transformation Project is one of the most ambitious government technology initiatives in Ontario to date. It took place in a very complex environment—in a Ministry that was charged with reforming its social assistance legislation and has a highly complex, multi-stakeholder delivery system and in a province that has significant geographic diversity. It designed a delivery system that took into account the diverse needs of social assistance recipients and the myriad of interrelated policies, business rules, procedures, and practices related to two dramatically changed programs: Ontario Works, delivered by municipalities, and the Ontario Disability Support Program, delivered by ministry offices. This business transformation was implemented through two levels of government that represent almost 300 delivery sites with 7,500 users and serving more than 600,000 people.

The Business Transformation Project developed a new Service Delivery Model that features a Web-based system with on-line technology, a common province-wide database, telephone screening for eligibility, the use of third-party sources to verify eligibility, and an automated telephone system to provide recipients with up-to-date, easily accessed information on their personal case file. The Ministry believes that complex systems of this type normally require a substantial operating period in a live environment to deal with all the complexities that are inherent in the design of such large multi-user systems.

A major principle for the Ministry was that benefits achieved through the Business Transformation Project would not only fully cover project costs, but would also continue to generate a return on investment. The Ministry believes that realization of this principle has been achieved. It is the Ministry's view that savings attributed to the overall business transformation are substantial and substantial future savings will continue to accrue to taxpayers from this transformation.

Many of the issues identified by the Provincial Auditor were known to the Ministry through its rigorous feedback process with users. We are continuing to address those issues with our delivery partners. The design allows for continuous improvement over the next few years, enabling the Ministry to make many modifications and enhancements, working hand in hand with our other partners—the Consolidated Municipal Service Managers.

This project, then, has been about radical transformation of a large, complex, costly, and vital system. It has, at its foundation, been about improved services: taking the steps necessary to ensure that the law, the program, the administrative and management systems and processes, and the technology that together make up the social assistance system deliver the desired outcomes. It has been done in a way that has furthered the Ontario Public Service's knowledge and understanding about how best to partner with others to make such radical change happen.

DETAILED AUDIT OBSERVATIONS

During the mid-1990s, the computer systems used by the Ministry to process social-assistance payments had reached their practical capacity and were unable to support desired changes to improve program delivery and administrative effectiveness. The Ministry decided that it lacked the internal expertise and financial resources to develop the necessary business processes and technologies either in-house or with the assistance of outside contractors using traditional procurement methods.

Instead, the Ministry chose to follow the common purpose procurement process, an innovative arrangement under which ministries and private-sector partners are to share the risk, investment, and future savings of jointly identifying and implementing new ways of delivering services.

Thus, on January 27, 1997, the Ministry entered into a common purpose procurement agreement with Accenture (formerly known as Andersen Consulting) to undertake the Business Transformation Project. This Project entailed the development and implementation of new business processes and a province-wide information technology system operating in real time to allow service managers to deliver all social assistance services.

At the time of our first audit of the agreement between Accenture and the Ministry in 1998, we concluded that the Ministry had not demonstrated due regard for economy and efficiency in the contract terms agreed to or in the administration of the work performed to February 1998, and we made a number of recommendations in that regard.

Although the Ministry's ability to act on some of these recommendations was limited by the legally binding terms of the original agreement with Accenture, there were still significant opportunities to improve on the agreement's administration and thus to address many of our 1998 recommendations.

The need to act on the most significant of our concerns was reinforced by the Standing Committee on Public Accounts, which held hearings on our report in December 1999, and passed a motion that included the following recommendations.

- The maximum-payment cap of $180 million included in the original agreement should not be increased and expenditures excluded from the cap should be minimized.
- The Ministry should develop an auditable system of benchmarking to ensure the correct attribution of benefits to the Business Transformation Project.
- The functionality of the technology originally contracted for should not be diminished.

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Part One: ADMINISTRATION OF THE AGREEMENT BETWEEN THE MINISTRY AND ACCENTURE

Payments in Excess of Payment Cap

At the time of our original audit of this agreement in 1998 and its subsequent follow-up in 2000, the Ministry expressed confidence that, despite the Provincial Auditor's various concerns, ultimately, the payments to Accenture would be capped at $180 million, excluding certain specified items. However, the table below shows that payments to Accenture to March 2002 and the total budgeted expenditures at that time significantly exceeded the cap.

Actual Payments and Budgeted Expenditures to Accenture, March 2002

	Actual Payments ($ million)	Budgeted Expenditures ($ million)
In-cap payments	180.0	180.0
Out-of-cap payments		
Production support, help desk, and application maintenance	36.4	39.1
Out-of-scope work	7.4	9.0
Accenture performing ministry work	22.2	31.3
Total payments	**246.0***	**259.4**

* These payments to Accenture do not include amounts for hardware or third-party software purchased by the Ministry from sources other than Accenture, which totalled approximately $34.6 million at the time of our audit. We also noted that the total cost of the Ministry's contribution to the Business Transformation Project, including the $34.6 million noted above, was $153.9 million to March 2002.

Source of data: Ministry of Community, Family and Children's Services

The total cost of the Business Transformation Project to March 2002, including ministry expenditures and payments to Accenture, was therefore about $400 million.

Our concerns with respect to each of the above types of out-of-cap payments are detailed below.

PRODUCTION SUPPORT, HELP DESK, AND APPLICATION MAINTENANCE

The items listed in the title above are the only items for which Accenture was to be paid outside the $180-million payment cap as outlined in the original 1997 agreement. However, as we noted in our 1998 audit report, the circumstances under which costs for some of these items could be incurred had not been clearly defined and the costs had not

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PRODUCTION SUPPORT, HELP DESK, AND APPLICATION MAINTENANCE

The items listed in the title above are the only items for which Accenture was to be paid outside the $180-million payment cap as outlined in the original 1997 agreement. However, as we noted in our 1998 audit report, the circumstances under which costs for some of these items could be incurred had not been clearly defined and the costs had not been estimated, even though we thought then that they could be substantial. Costs for these items were subsequently budgeted at $19.7 million in May 2001; that budgeted amount had increased to $39.1 million by March 2002.

Most of the actual expenditures for these items were incurred after the initial system release in May 2001. We examined a sample of items in this category and found that many were attributable to the new information technology system failing to function as intended, thus requiring critical design changes and increased technical support. We believe that many of the required changes should have been identified in pre-release testing and corrected under the warranty provisions of the agreement at no cost to the Ministry. In our view, the willingness of the Ministry to pay for these items outside the agreed-to payment cap appears questionable and unnecessary.

Contrary to the recommendations made by both the Provincial Auditor and the Standing Committee on Public Accounts to minimize the number of items excluded from the maximum payment cap, the April 2000 amendment to the original contract provided for the following two additional items to be paid for outside the payment cap.

OUT-OF-SCOPE WORK

The new information technology system was essentially designed and developed in 2000 based on the business requirements of the Ontario Works and Ontario Disability Support programs as established in July 1999. After July 1999, when new requirements for both programs needed to be incorporated into the new system design, doing so was considered out of scope and the work was billed for outside the payment cap, which we considered reasonable.

However, we believe one part of this work should not have been designated as out of scope. The information technology system's reporting function as originally designed and built did not meet many of the service-manager or ministry requirements. At the time of our audit, the Business Transformation Project was developing and implementing changes to that function at an estimated out-of-cap cost of $2.3 million, $1.4 million of which had been paid as of March 2002. In our view, these costs ought to have been avoided by including the critical reporting requirements in the original information technology design.

ACCENTURE PERFORMING MINISTRY WORK

Although both the original agreement with Accenture and the subsequent amendment in April 2000 maintained the maximum payment cap at $180 million, neither the original agreement nor the subsequent amendment specifically defined the respective responsibilities of Accenture or ministry staff. Instead, some specific responsibilities were assigned to the Ministry in a January 2001 amendment to the agreement and subsequently, as specific task orders were approved.

The Ministry was unable to complete some of that work; Accenture performed the work on behalf of the Ministry and was paid for it outside the cap, which had already been reached in early 2001.

Essentially, the Ministry paid Accenture $22.2 million to March 31, 2002 outside the payment cap for performing work for which responsibility had not been defined in either the original agreement or in the April 2000 amendment. This made the payment cap ineffective and demonstrates its failure as a protection against project cost overruns for the Ministry and, ultimately, for taxpayers.

Cost and Benefit Pools

For the Ministry and Accenture to share in the risk, investment, and future savings of the Business Transformation Project, in keeping with common purpose procurement principles, the agreement between them provided for payments to be made from a benefit pool to cover the accumulated amounts charged by each partner to a cost pool. (As noted in both our 1998 audit report and in our 2000 follow-up on that report, Accenture's billing rates were substantially higher than the corresponding amounts charged by the Ministry.) Cost and benefit pool balances and the amounts actually paid as at January 2001 and March 2002 were as detailed in the following tables.

Cost Pool

	January 2001 ($ million)	March 2002 ($ million)
Accenture:		
In-cap	166.2	187.7
Out-of-cap	14.9	66.0
Subtotal	**181.1**	**253.7**
Ministry:		
In-cap	57.3*	153.9*
Out-of-cap		
Subtotal	**57.3**	**153.9**
Total	**238.4**	**407.6**

* Although costs to the Ministry cannot be divided into in-cap and out-of-cap costs, they are mainly related to in-cap activities.

Source of data: Ministry of Community, Family and Children's Services

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Benefit Pool

	January 2001 ($ million)	March 2002 ($ million)
Reported benefits	274.6	587.1
Payments to Accenture	181.1	246.0*
Allocation to the Ministry	57.3	153.9

*Of this amount, $180 million is related to in-cap activities.

Source of data: Ministry of Community, Family and Children's Services

Both our 1998 Annual Report and our 2000 follow-up report described our two main reservations regarding the workings of the cost and benefit pools and hence the amount paid to Accenture, reservations we continue to hold:

- First, it is still our view that the Ministry's contribution to the cost pool is understated. For example, the total costs to the service managers for obtaining data extracts and setting up programs to process them to provide necessary management information are likely to be significant. However, those costs are not included in the cost pool even though they are a direct result of the information technology system's reporting deficiencies. This topic is discussed again further on in our report (see Failure to Meet Ministry and Service-manager Needs).
- Second, approximately 73% of the balance in the benefit pool, or $427 million as at March 31, 2002, had been attributed to the Consolidated Verification Process—a process for reviewing recipient eligibility for payments and the appropriateness of amounts paid. Contrary to our findings, the Ministry believes that the attribution of these benefits to Accenture is warranted in part because the Consolidated Verification Process introduced two major enhancements over the previous verification process, namely risk-ranking flags that automatically prioritize recipient files for review and third-party confirmation of information provided by recipients. As we discuss later on in this report, we found that neither of these features was being used as intended and therefore required improvements (see Eligibility Assessment Process Enhancements).

In addition, many staff at the service managers we visited stated that the changes inherent in the Consolidated Verification Process were relatively minor in nature compared to previous processes and often did not affect the termination rates of recipients to any noticeable degree.

Therefore, in our view, a significant portion of the reported benefits accumulated in the benefit pool continue to be highly questionable.

We also noted that since May 2001, most of Accenture's costs for the Business Transformation Project have shifted to out-of-cap activities. In addition, a January 2001 contract amendment provides for the extension of the two-year period for benefit accrual after the end of the contract "if, as, and when necessary in order to allow for Accenture to be fully reimbursed for all costs approved by the parties which are not subject to the cap."

Since the cost and benefit pool balances were reasonably similar at the time of this contract amendment, the Ministry has in effect abandoned the common purpose procurement principle of sharing risk and rewards by virtually guaranteeing Accenture full payment for all of its out-of-cap work, which is now substantial.

Business Transformation Project Status

In our 1998 report we noted that, at the time we completed our field work in February 1998, the Business Transformation Project was significantly behind schedule in meeting the then-expected rollout date of June 1999. The Project was subsequently restructured, and, at the time of our follow-up work in 2000, the expected rollout of the new service-delivery system across the province was to occur in phases between February 2001 and January 2002.

This revised rollout schedule was essentially met since the system was rolled out to all 47 service managers that administer Ontario Works between May 2001 and January 2002. However, to meet that schedule, a number of important features that were part of the original system design were either set aside or not satisfactorily completed. For example:

- Monthly income reporting by recipients using a telephone-based, interactive-voice-response system, which was to have been an important part of improving administrative efficiency, had not yet been developed.
- Data archiving of recipient information from the old computer systems so that it would be available in the new information technology system was included in the original system design but had not been implemented at the time of our audit in May 2002.
- The new information technology system as rolled out lacked the reporting functions necessary to help ensure that Ontario Works is efficiently and effectively managed, as we discuss further on in the report (see Failure to Meet Ministry and Service-manager Needs).

In addition, the system as rolled out suffered from a number of significant defects as discussed later in this report, many of which remained uncorrected at the time of our audit.

Knowledge Transfer

One of the objectives of the partnership between the Ministry and Accenture was to foster sufficient knowledge transfer from Accenture to ministry staff to allow the transition of the operation and maintenance of the new information technology system from Accenture to the Ministry upon completion of the Business Transformation Project. To the extent that this objective was met, the Ministry would be self sufficient, thereby reducing its dependence on outside consultants.

However, at the conclusion of the agreement term in January 2002, the anticipated knowledge transfer was not sufficiently advanced with the result that the Ministry was not in a position to operate and maintain the information technology system. Instead, Accenture and other private-sector consultants provided nearly all of the technical resources necessary for completing, maintaining, and operating the information technology system after January 2002 at a substantial cost to the Ministry. For example, Accenture's services were extended from January 26, 2002 to March 31, 2002 and then to May 31, 2002 to provide technical maintenance services at an estimated cost of $5.7 million. We understand that at the time of our audit the Ministry was in the process of finalizing a decision on a request for proposals for technical maintenance services after May 31, 2002 for Management Board of Cabinet approval.

The New Service-delivery System

The overall objective for revising the business processes and modernizing the supporting information technology system for the Ministry's social-assistance programs was to provide service managers with the tools to enhance recipient services and improve the service-delivery system's financial integrity while reducing the cost of program administration. More specifically, the Ontario Works service-delivery system was intended to:

- reduce the time spent by caseworkers on clerical and other administrative duties thereby freeing up more time for providing services to Ontario Works recipients, including time spent on the program's employment focus;
- provide more timely and accurate determination of recipient eligibility thus reducing overpayments, inappropriate payments, and general system abuse; and
- improve access to the information necessary for effective program management and ministry oversight of Ontario Works.

However, service-manager staff we talked to and those who responded to our questionnaire expressed considerable dissatisfaction with the new service-delivery system. In many respects, service-manager staff indicated that the revised business processes and information technology system were no improvement at all and, in some cases, were a step back from what had previously been available to them.

The Ministry recognized at an early stage of the Business Transformation Project the wealth of knowledge and expertise of municipal staff involved in the delivery of social services and considered ongoing consultation with service-manager staff vital to the Project's ultimate success, particularly during the planning stages. Nevertheless, although many sessions were held to gather service-manager staff input into the design of the new service-delivery system, staff generally indicated that only input supporting the proposed design was listened to.

Service-manager staff informed us that decisions to reject recommendations they had made during the design phase often resulted in system deficiencies that later required correction. Some of the major problems reported by service-manager staff are listed below.

- At the time of our audit, the new delivery system had not yet provided any noticeable efficiencies or time savings. In fact, numerous inefficiencies were created by the amount of manual work and number of "workarounds" required to deal with the information technology system's many deficiencies. (A "workaround" is a procedure for coaxing a computer program into producing results that it has not been programmed to produce more directly.) In addition, service-manager staff advised us that they spent much extra time manually checking unreliable information produced by the information technology system.
- Many service-manager staff we interviewed indicated that the information technology system had not been adequately tested and, in effect, was a work in progress at the time of its release.
- Staff generally felt that the training they received on how to use the new information technology system was inadequate. Most staff identified specific areas where more training was still required. For example, according to service-manager staff, the training required for using the system's reporting functions was scheduled to be offered in September 2002, almost one-and-a-half years after implementation began.

Staff were also critical of the new intake-screening process because they found that it did not significantly reduce the number of in-office eligibility assessments held.

SYSTEM INVESTIGATION REPORTS

When service-manager staff encounter a problem with the information technology system, they initially contact their on-site business expert who reviews the problem and determines whether it can be readily resolved. If the problem cannot be resolved, it is reported to the Business Transformation Project's help desk, which prepares and logs an issue ticket. These tickets are then referred to business analysts and technical experts for their consideration of the reported problem.

If the problem is found to be valid, the analyst or technical expert creates a system investigation report (SIR). Because particular problems are likely to be reported by various local offices and ticketed a number of times by the help desk, duplicate tickets are consolidated into one SIR.

As of February 2002, the Business Transformation Project had accumulated 10,600 SIRs. Of these:

- nearly half were classified as "system defects" of which 540 were unresolved at the time of our audit; and
- approximately 5,700 were considered emergency or high-priority items of which approximately 550 were unresolved.

Based on our review of the system and discussions with service-manager staff, identified system deficiencies can generally be categorized as:

- a failure to meet ministry or service-manager needs;
- unexplained errors and omissions; and
- internal control deficiencies.

Our observations concerning these system deficiencies are outlined below.

FAILURE TO MEET MINISTRY AND SERVICE-MANAGER NEEDS

Operational and Performance Information

Access to adequate operational and performance information is critical to the efficient and effective operation of any program. However, in a number of instances we noted that, at the time of our audit, the new information technology system for Ontario Works either did not provide information that was needed or provided information that was unreliable. The problems described below were all ongoing at the time of our audit.

Examples of information the new technology system could not provide included:

- A listing of cumulative overpayments for each active recipient: This report would give both service managers and the Ministry the means to monitor the level and recovery of overpayments and help identify caseworkers in need of additional training. Although there was no plan to implement this type of report, the Business Transformation Project intended to introduce one that lists non-cumulative new overpayments by recipient in June 2002, which will be of limited use in our view.
- A listing of overpayments that are not being pursued for recovery and that, in effect, are written off: The system allowed caseworkers to decide which overpayments not to pursue without supervisory approvals. As a result, supervisors need a listing of the overpayments not being pursued to identify and review the appropriateness of these decisions. At the time of our audit, there were no plans to implement such a listing.
- A listing of recipients who lacked participation agreements or whose participation agreements were expired: We were advised that correction of this deficiency was planned for March 2002 but had been delayed as a result of labour disruptions.

Examples of inaccurate or inadequate information provided by the new information technology system that had not been remedied at the time of our audit included the following:

- In order to bill the province for its share of Ontario Works costs, service managers must determine the total amount paid to recipients. However, since the implementation of the new information technology system, the service managers have been unable to reconcile detailed listings of their payments to recipients with the summary expenditure reports produced for billing purposes. At the time of our audit, attempts to fix this problem were underway. As a result, service-manager billings to the province were based on estimates, as detailed in a later section of this report (see Service-manager Claims for Financial Assistance Costs).

- We compared the amount of overpayments recovered from inactive recipients in one service manager's own tracking system to amounts recorded as recovered by the new information technology system for the period from October 2001 to January 2002 and found that the totals were $38,300 and $309,000 respectively. Service-manager staff were unable to explain the discrepancy.
- According to service-manager staff, monthly reports of activities and outcomes for the Consolidated Verification Process generated by the new technology system were inaccurate because they contained duplicate recipients and recipients included in error. Because of these inaccuracies, the reports were not useful.
- The information technology system produces an exception report that identifies instances of caseworkers overriding a system-generated value. However, this report is simply an undifferentiated list of overrides, many of which are due to workarounds and simple errors being corrected. Although the list includes overrides that resulted in changes to amounts paid, those overrides cannot be isolated from other items and therefore the information is not useful.

Some service managers request data extracts from the Ministry so that they can process and analyze the data themselves to obtain information that is not otherwise readily available as well as to compensate for some of the deficiencies noted above. Data extracts have been provided but analyzing the data involves costs to service managers for setting up the necessary computer programs. In addition, we were informed by one of the service managers that had used this approach that the data provided was not completely reliable and accurate. For example, its monthly data extract continued to include approximately 600 cases that had previously been transferred out of the service manager's jurisdiction.

System Complexity

An information technology system should be reasonably easy to use and its users should be provided with sufficient training to obtain the required working knowledge of the new system. However, service-manager staff informed us they found the new technology complicated to use and that, combined with a lack of training, has led to errors, extra work, and stress for users:

- For example, according to the service managers, determining why an overpayment was created and recorded on the system is difficult and time consuming. Service-manager staff informed us that the previous computer system allowed caseworkers to review their actions in order to help check the accuracy of the results. The new information technology system does not allow such reviews. In addition, caseworkers were sometimes unaware of instances when they had created overpayments. Although a new feature was added to prompt caseworkers when an overpayment was about to be created, after a subsequent update to the information technology system, that prompt appeared only intermittently.

- One service manager hired three "troubleshooters" to review and help establish the accuracy of payments to recipients. The service manager informed us that in one month alone the troubleshooters investigated 148 cases identified as likely to be affected by errors and found that:
    - $123,457 in benefits that recipients were not entitled to had been issued;
    - $106,687 was paid correctly but had been recorded on the system as overpayments; and
    - $7,743 that recipients were entitled to had not been paid.

These results are troubling because they suggest that the information technology system is not functioning properly or that staff are not using the system properly or some combination of both.

UNEXPLAINED SYSTEM ERRORS

The information technology system was not operating as consistently or reliably as expected. A number of errors were occurring for reasons that service managers could not explain. We noted that many of these errors were caught due to the vigilance of caseworkers. However, the errors made by the information technology system so far do not inspire confidence and raise the possibility that other significant problems may go undetected.

Below are examples of unexplained information technology system errors, most of which had not been corrected at the time of our audit:

- Between May and December of 2001, the information technology system inexplicably produced 7,110 discretionary benefit payments totalling $1.2 million to recipients who were ineligible for Ontario Works assistance of any kind.
- In some instances, when a caseworker attempted to cancel a cheque, the information technology system reissued the cheque the next day. The cancelling and reissuing of these cheques continued until the Business Transformation Project office effectively cancelled them.
- When a caseworker cancels a cheque, any related overpayment amount should be adjusted accordingly. We were informed, however, that this did not always occur, which resulted in overpayment balances being overstated.
- We were informed that amounts on cheques did not always agree with the amounts on the attached cheque stubs or with corresponding amounts on the paylist. We understand that this was corrected subsequent to our audit.
- In some instances, caseworkers requested that a cheque be sent to a recipient only to have the information technology system fail to comply. Service-manager staff then had to prepare a manual cheque.

- In many cases, money received from the Family Responsibility Office to reimburse the service managers for prior payments made to spouses could not be recorded as intended because doing so would trigger the information technology system to send another cheque for the reimbursement amount to the recipient.

- Many manual cheques issued to recipients and third parties on their behalf could not be recorded. For example, for one month alone, one service manager could not record on the system 41 manual cheques totalling $72,842.

- The information technology system automatically produced tax slips for all recipients who received Ontario Works assistance in 2001 so that recipients could include the amounts on their tax returns. However, a number of these slips reported unreasonable amounts, including amounts for –$1.2 million and –$194,000. Although the Ministry informed us that none of the tax slips cited had been mailed out, we found no evidence to indicate that corrected tax slips had been subsequently issued. In addition, the inability of service managers to record some reimbursements and manual cheques on the system also resulted in recipients receiving inaccurate tax slips.

- The system automatically prints form letters to recipients relating to a number of issues such as overpayments. According to the service managers, the information in many letters is inaccurate or of no value. For example, letters have been printed informing recipients that they have received a $0 overpayment and that they are "obligated to pay this debt." As a result, service managers have had to visually review all letters produced by the information technology system to ensure that they are accurate and useful. This has increased the amount of time spent on administrative functions.

INTERNAL CONTROL DEFICIENCIES

Information technology systems generally include a number of internal controls to help ensure that intentional or unintentional errors do not occur. However, we noted that the new information technology system lacked certain basic internal controls, including the following:

- The restriction of certain tasks to specific individuals helps ensure that they cannot perform combinations of tasks on their own that could result in errors or the misappropriation of funds. However, we noted the system lacked such controls over the payment function. For example, the system allowed the same person to open a new file or reactivate a terminated one, change banking information, make payments to recipients, and close the file without supervisory review or approval. The likelihood of such payments being detected was low because the system did not produce reports on cases opened or closed by caseworkers. This situation exposed Ontario Works to an unnecessary risk of misappropriation of funds.

- The system was supposed to produce an audit trail that allowed service managers to track any changes made to files by user identification. However, we noted that an audit trail was not always maintained, as there have been instances where individuals who

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made no changes to a file have overridden a previous user identification. In some instances, users with read-only access have also overridden previous user identifications.

- Since the information technology system that supports both Ontario Works and the Ontario Disability Support Program is integrated and province-wide, we would have expected it to be programmed to prevent recipients from receiving both Ontario Works and Ontario Disability Support payments for the same time period and to prevent duplicate or multiple Ontario Works payments being sent to the same individual by different service managers. However, service managers informed us that they had found instances of these kinds of duplicate and multiple payments.
- The read-only access function does not permit users to view all information. To gain viewing access to all information, users must be given full edit rights, which is undesirable.
- Service managers informed us of instances when individuals, including those with read-only access, have recorded an overpayment or issued a cheque without being aware that such an operation had occurred.
- Many service managers also noted that the workarounds they must use to make the information technology system perform better could make it difficult to pursue instances of suspected fraud in the future. The integrity of the system and the data are at risk in instances where false information is entered into the system during the course of a workaround. One service manager estimated that prior to the new system's implementation it was referring for prosecution approximately four cases of suspected fraud a month, but, almost one year after system implementation, it was not referring any cases for prosecution. The service manager attributed this decrease to a lack of integrity of information in the system as a result of workarounds and the way information was organized.

Conclusions on the Administration of the Agreement Between the Ministry and Accenture

In light of the observations detailed in this report, it is our view that the common purpose procurement principles of sharing risk, investment, and rewards were not provided for in the agreement between the Ministry and Accenture or in its subsequent amendments and were clearly not adhered to. In effect, the Ministry accepted most, if not all, of the risk for the Business Transformation Project while Accenture received a disproportionate amount of the rewards.

If the Ministry again decides to undertake a common purpose procurement project of this complexity and magnitude, it needs to ensure that the project is delivered on time, on budget, and meets the business needs of the Ministry and its service-delivery agents. Based on the Ministry's experience in this case, we believe that the potential benefits of common purpose procurement projects do not justify the risk involved.

Ministry Comment

It is the Ministry's view that the common purpose procurement form of contracting was well suited to this project because it allowed the parties to establish the overall deliverables as part of the Master Agreement. Over the term of the contract, the parties then evolved the business and technology solution with the participation of its many stakeholders. The Task Orders outlining this work detailed the respective responsibilities, the resources, timing, and specific outcomes that formed part of the contract. Both parties assumed a significant investment and agreed to share the risk and rewards proportional to their investment. The terms of the Master Agreement and subsequent contractual documents were strictly adhered to as validated by Contract Compliance Reviews performed during the project and at project closure.

The Ministry agrees that all common purpose procurement contracts should ensure that the projects are delivered on time and on budget and meet the business needs of the users and believes that those criteria have been met. The benefits of this form of contracting should always be balanced against the risks involved in delivering these large, complex projects. This project furthered the Ontario Public Service's knowledge and understanding about how best to partner with others to make such radical change happen.

Part Two: ONTARIO WORKS PROGRAM ADMINISTRATION

In preparation for the introduction of the new service-delivery system for Ontario Works, the Ministry fully implemented a new, two-step application process for eligibility assessment in January 2001. Since that time, individuals applying for assistance are to call one of seven intake-screening units and provide basic personal information about such matters as their income, assets, and current accommodation. Operators enter this information into the new technology system and, based on the information provided, advise the applicant whether he or she is likely to be eligible for assistance.

Regardless of the opinion expressed by screening-unit staff at this stage, individuals who choose to continue with the application process are referred to a service manager and, in most cases, are scheduled for an Ontario Works information session and a subsequent personal interview. During the personal interview, the applicant must produce key documents to establish eligibility for financial assistance. In addition, the service manager is required to confirm some of the information provided during the interview with third parties such as a credit agency or other benefit providers.

In cases where financial eligibility is determined, the applicant is also required to enter into a participation agreement, which entails a commitment to participate in employment-related activities designed to help the participant find and keep a job. The participant's continued made no changes to a file have overridden a previous user identification. In some instances, users with read-only access have also overridden previous user identifications.

- Since the information technology system that supports both Ontario Works and the Ontario Disability Support Program is integrated and province-wide, we would have expected it to be programmed to prevent recipients from receiving both Ontario Works and Ontario Disability Support payments for the same time period and to prevent duplicate or multiple Ontario Works payments being sent to the same individual by different service managers. However, service managers informed us that they had found instances of these kinds of duplicate and multiple payments.
- The read-only access function does not permit users to view all information. To gain viewing access to all information, users must be given full edit rights, which is undesirable.
- Service managers informed us of instances when individuals, including those with read-only access, have recorded an overpayment or issued a cheque without being aware that such an operation had occurred.
- Many service managers also noted that the workarounds they must use to make the information technology system perform better could make it difficult to pursue instances of suspected fraud in the future. The integrity of the system and the data are at risk in instances where false information is entered into the system during the course of a workaround. One service manager estimated that prior to the new system's implementation it was referring for prosecution approximately four cases of suspected fraud a month, but, almost one year after system implementation, it was not referring any cases for prosecution. The service manager attributed this decrease to a lack of integrity of information in the system as a result of workarounds and the way information was organized.

Conclusions on the Administration of the Agreement Between the Ministry and Accenture

In light of the observations detailed in this report, it is our view that the common purpose procurement principles of sharing risk, investment, and rewards were not provided for in the agreement between the Ministry and Accenture or in its subsequent amendments and were clearly not adhered to. In effect, the Ministry accepted most, if not all, of the risk for the Business Transformation Project while Accenture received a disproportionate amount of the rewards.

If the Ministry again decides to undertake a common purpose procurement project of this complexity and magnitude, it needs to ensure that the project is delivered on time, on budget, and meets the business needs of the Ministry and its service-delivery agents. Based on the Ministry's experience in this case, we believe that the potential benefits of common purpose procurement projects do not justify the risk involved.

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In cases where financial eligibility is determined, the applicant is also required to enter into a participation agreement, which entails a commitment to participate in employment-related activities designed to help the participant find and keep a job. The participant's continued eligibility for financial assistance is periodically reassessed at frequencies that vary with the perceived risk of ineligibility.

In cases where the application for financial assistance is denied, applicants can first ask for an internal review of the decision by the service manager, after which the decision may be appealed to the Ministry's Social Benefits Tribunal.

Intake-screening Units

The two-step process for eligibility assessment was designed to increase program efficiency and effectiveness principally by:

- permitting applicants to obtain preliminary eligibility assessments at an earlier stage of the application process through a convenient telephone call that lasts, on average, only 15 to 20 minutes;
- reducing the number of in-office interviews for applicants who will ultimately be found ineligible for financial assistance, interviews that typically take up to two hours; and
- enhancing the consistency and effectiveness of the eligibility assessment process.

However, we found that the new eligibility-assessment process was not meeting the objective of significantly reducing time-consuming, in-office interviews.

Ministry documentation provided to us indicated that half of all applicants were expected to be screened out as a result of their initial telephone inquiries to the intake-screening units. However, records for 2001 indicated that the results obtained by screening units fell far short of meeting this goal.

- Based on a four-month ministry study, 40% of all applicants bypassed the screening units altogether and applied for assistance directly to a service manager.
- Eighty-seven percent of all callers to screening units in 2001 chose to proceed to a personal, in-office interview at a service manager, regardless of the preliminary assessment provided by the screening unit.

We also found that the Ministry did not have information that could demonstrate the effectiveness of the two-step eligibility-assessment process. For example, it did not have any information with respect to:

- the number of applicants who were advised by screening unit staff that they were likely to be ineligible for financial assistance but proceeded to a personal interview and were found to be eligible; or
- the number of applicants who were advised by screening unit staff that they were likely to be eligible for financial assistance, but were found to be ineligible at a later stage.

Service-manager staff we talked to expressed the following additional concerns:

- Screening-unit staff who answer applicants' calls were in some cases not as familiar with Ontario Works' requirements as they should have been.

- The Ministry's standard of answering 80% of all telephone calls within 60 seconds was often not met. For example, information for the first three months of 2002 for one of the screening units we contacted indicated that calls were answered within one minute only 14% to 72% of the time.

Recommendation

The Ministry should obtain the information necessary for assessing the efficiency and effectiveness of its eligibility-assessment process for the Ontario Works program, determine whether the intake-screening units are meeting expectations, and, where necessary, take corrective action.

Ministry Response

The Ministry agrees. Based on experience with early implementation, the Ministry is working closely with the Ontario Works service managers to enhance performance indicators, which will assist in monitoring effectiveness and efficiencies generally and specifically with regard to the intake-screening units.

Recipient Eligibility

Applicants must provide the service manager with the information necessary to demonstrate their eligibility for financial assistance and to determine the correct amount of assistance to be paid. Ministry policy requires that at the time of the initial eligibility assessment and for subsequent eligibility reassessments copies of certain documents must be placed on file and the visual verification of other information must be noted on file. Document copies that must be kept on file include birth certificates, legal documents relating to marital status and support agreements, and tax assessments. Information that must be visually verified and noted on file includes social insurance and health card numbers, banking information, and school records for dependent children. Any single piece of missing information could have a significant impact on the eligibility assessment and the determination of the correct amount of assistance to be provided.

Our examination of a sample of recipient files found that the Ministry's requirements for obtaining and verifying all of the information necessary to establish eligibility and amounts to be paid were often not met:

- On average, approximately three-quarters of the recipient files for which initial benefits had been granted lacked at least one of the information requirements and in some cases up to three or four. For one service manager we visited, we noted that 95% of the files we reviewed lacked at least one of the information requirements.

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- On average, approximately three-quarters of the recipient files for which a subsequent eligibility reassessment had been undertaken continued to lack at least one of the required items of information.

We noted that the rates at which required information was lacking were comparable to those cited in our 1996 report on the Ministry's Provincial Allowances and Benefits Program. Therefore, little if any improvement has been realized in this area since that time. We also noted that the Ministry's own compliance-review process for recipient files found many of the same information deficiencies that we found, and no corrective action had been taken.

Recommendation

To ensure that all recipients are eligible to receive Ontario Works financial assistance and that the assistance provided is in the correct amount, the Ministry should reinforce with service managers its requirements for obtaining, documenting, and correctly assessing the required recipient information.

Ministry Response

The Ministry places a high priority on ensuring that only eligible people receive the accurate amount of financial assistance and will reinforce this with Ontario Works service managers through its compliance review and monitoring process.

Eligibility-assessment Process Enhancements

With the introduction of the new service-delivery system in 2001/02, the Ministry introduced two enhancements to the eligibility-assessment process for recipients—automatic risk flagging of files and third-party confirmation of information provided by recipients. However, neither of these were consistently used and, therefore, did not meet ministry expectations.

FLAGGING HIGH-RISK CASES FOR ELIGIBILITY REVIEW

The new information technology system is programmed to assign risk flags to active individual cases in the system based on a variety of assessed characteristics. All cases are assessed as high, medium, or low risk for potential non-compliance with program eligibility requirements.

Cases are assessed as high risk if they meet any one of a number of characteristics, such as having declared accommodation costs exceeding 80% of the total assistance provided or not having had an eligibility review conducted within the previous eleven months. Service managers are expected to conduct reviews of cases flagged as high risk on a priority basis and before reviewing cases assessed as medium or low risk.

However, we found that the information technology system's risk-flagging feature was not effective in flagging the highest risk cases and was not effectively used to prioritize case reviews for the following reasons:

- At the time of our audit, large numbers of cases were flagged as high risk and therefore in need of review. For example, 10% of all cases for one service manager were flagged as high risk, which represents about twice as many cases as can be reviewed in a month. However, service managers were unable to prioritize their workload within this category to determine which cases should be reviewed first because:
    - cases that had not been reviewed for eleven months were not differentiated from those that had not been reviewed for two or more years; and
    - a case that met one of the criteria for high risk could not be differentiated from those that met three or four criteria.
- Service managers could not alter the risk-assessment criteria to reflect local conditions. For example, one service manager had a large proportion of cases flagged as high risk because 80% or more of the assistance amount was spent on accommodation. However, even after these cases were reviewed and recipients were found to be eligible, the cases continued to be flagged as high risk.
- Many of the cases flagged as high risk had not been reviewed for prolonged periods of time. For two of the service managers we visited, we found high-risk cases that had not been reviewed for between two and three years.
- Two service managers we visited were conducting reviews for cases rated as medium and low risk while other cases rated high risk were not reviewed. For example, of the cases assigned for review during a one-month period at one service manager, 24% were rated high risk, 44% were rated medium risk, and 32% were rated low risk while cases identified as high risk remained unreviewed.

Recommendation

To better identify and rank the highest risk cases for review and to ensure that those reviews are conducted on a priority basis, the Ministry should:

- **consider refining the criteria used to identify and rank cases in need of a review; and**
- **ensure that service managers prioritize reviews on the basis of assessed risk.**

- On average, approximately three-quarters of the recipient files for which a subsequent eligibility reassessment had been undertaken continued to lack at least one of the required items of information.

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Ministry Response

The Ministry agrees. The Ministry is currently reviewing its risk criteria and monitoring process in conjunction with Ontario Works service managers to enhance this process.

THIRD-PARTY CONFIRMATION OF INFORMATION PROVIDED BY RECIPIENTS

In our 1996 report on the Provincial Allowances and Benefits Program, we recommended that the Ministry enter into information-sharing agreements with other benefit providers and jurisdictions to help ensure that information provided by recipients is correct and that errors or omissions resulting in inappropriate eligibility determinations are prevented or detected.

As part of the introduction of the new service-delivery system, the Ministry acted on that recommendation and entered into a number of third-party information-sharing agreements. Confirming the completeness and accuracy of information provided to service managers with third parties is now mandatory in some instances and left to the discretion of caseworkers in others. Mandatory third-party confirmations at the time of both the initial eligibility determination and for subsequent reviews include:

- confirming information with respect to Employment Insurance benefits provided by the federal government; and
- confirming personal credit information with a major credit-rating agency.

Mandatory third-party confirmations of information provided only at the time of subsequent reviews include:

- confirming support payments with the Family Responsibility Office when support is a potential issue; and
- confirming income information with the Canada Customs and Revenue Agency.

However, we found that for almost half of the sample of files we reviewed that should have included mandatory third-party confirmations, at least one such confirmation had not been undertaken. For one service manager, we found that 70% of such files were missing at least one of the required third-party confirmation. In addition, we found that discretionary third-party confirmations, for example, confirming spousal support with the Family Responsibility Office at the time of the initial eligibility assessment, were seldom done, even though in our opinion they often should have been carried out.

Recommendation

To help ensure that information provided by recipients of Ontario Works assistance is complete and accurate and that errors or omissions resulting in

inappropriate eligibility determinations are detected and prevented, the Ministry should:

- **assess the advisability of making all mandatory third-party confirmations at the time of a subsequent eligibility review also mandatory at the time of the initial eligibility assessment; and**
- **reinforce with service managers its requirement that all mandatory third-party confirmations be conducted as required.**

Ministry Response

The Ministry agrees. The Ministry will assess the advisability of expanding mandatory third-party confirmations and reinforce with Ontario Works service managers the requirement for third-party confirmation.

Reporting of Other Income by Assistance Recipients

Ministry policy requires that all recipients of Ontario Works financial assistance report to their service manager any other income they receive in a month. The new information technology system was to automate this reporting requirement using a telephone-based interactive-voice-response system. However, this aspect of the new technology was not developed, and recipients continued to be required to submit a monthly income-reporting statement disclosing non-assistance income; that information is then manually entered into the system.

If, in any of the first three months of receiving financial assistance, a recipient reports employment earnings, in the following month the amount of assistance is reduced by the amount of the reported earnings. After three months, recipients may receive employment earnings up to a base amount, ranging from $143 to over $400 per month depending on the makeup of the family unit, without affecting their financial-assistance entitlements. Reported employment income in excess of the base amount is clawed back at the rate of 75% during the first year, 85% during the second year, and 100% thereafter. Income from sources other than employment is deducted in full.

We reviewed a sample of files for which income-reporting statements had been received or for which monthly benefit entitlements had been reduced due to reported income and found discrepancies in approximately one-quarter of the files. These discrepancies included:

- reported income that was incorrectly reflected in the following month's assistance payment or was not reflected at all; and
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We also noted that the Ministry's policy is not clear as to whether an income-reporting statement is to be submitted if no income is earned in a month. Two of the service managers we visited required an income-reporting statement to be submitted every month whether or not the recipient had any income while the other service manager did not require reporting from recipients who had no income.

Recommendation

To help ensure that financial assistance provided by the Ontario Works program is in the correct amount, the Ministry should reinforce the requirement that service managers correctly reflect other reported income in the financial assistance provided.

Also, the Ministry should clarify whether or not monthly income-reporting statements are required from assistance recipients who have no income to report in a given month.

Ministry Response

One of the cornerstones of the Ministry's reform of the social services delivery system is ensuring that participants are issued the correct amount of financial assistance. The Ministry will emphasize with Ontario Works service managers the requirement that all reported income is to be correctly reflected in financial assistance provided.

Community and Employment Start-up Assistance

In addition to financial assistance for basic needs and shelter, Ontario Works recipients may also be eligible to receive community or employment start-up assistance. Community start-up assistance may be granted for such items as moving expenses and the last month's rent for new accommodation. Employment start-up assistance may be provided for such items as appropriate work wear or transportation costs for employment or employment-assistance activity. In the 2000/01 fiscal year, approximately $36.8 million and $11.6 million was provided for community and employment start-up assistance respectively. The table below shows the maximum benefit amounts that may be provided in any 12-month period.

Community Start-up and Employment Start-up Assistance Amounts, 2001/02

	Maximum Adult with No Dependants ($)	Maximum Adult with Dependant(s) ($)
Community start-up assistance	799	1,500
Employment start-up assistance	253	253

Source of data: Ministry of Community, Family and Children's Services

A ministry directive defines the specific circumstances under which a recipient is eligible for community and employment start-up assistance and requires that those circumstances be documented. However, the directive does not define eligible expenditures. Instead it provides examples of the type of expenditures that may be reimbursed under either program. In addition, the directive does not require a detailed listing of the costs incurred or an assessment of their reasonableness. We also noted that although receipts are required to support employment start-up assistance payments, there is no such requirement for community start-up assistance payments.

We found that local practices for obtaining supporting documentation for start-up assistance provided under the two programs varied widely among the three service managers we visited. One service manager required receipts to be filed for employment start-up purchases only; another required receipts to be filed for community start-up purchases only; and the third required a list of items to be purchased and their estimated costs for community start-up only.

We reviewed a sample of files for which either community or employment start-up assistance had been provided and noted the following:

- Contrary to the Ministry's requirement, there was often no evidence on file that the community or employment start-up event for which assistance had been provided had occurred.
- In the absence of receipts for the items acquired, it is not possible to assess the reasonableness of the amounts paid.
- A number of assistance payments were for ineligible items or were otherwise questionable. For example, community start-up assistance was provided for such things as rent arrears, utility bills, and mortgage payments, in some cases to the maximum amount of $1,500.

We also noted that the Ministry's policy is not clear as to whether an income-reporting statement is to be submitted if no income is earned in a month. Two of the service managers we visited required an income-reporting statement to be submitted every month whether or not the recipient had any income while the other service manager did not require reporting from recipients who had no income.

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We also noted instances where assistance was provided in excess of the established maximum amounts. For example, annual maximum amounts for both community and employment start-up assistance were often provided more than once in a 12-month period and, in one case, twice in the same month.

Recommendation

To help ensure that community and employment start-up assistance provided under the Ontario Works program is reasonable in the circumstances, the Ministry should:

- **reinforce with service managers its requirement to document and provide community and employment start-up assistance only in eligible circumstances and not in excess of the maximum amounts; and**
- **require service managers to obtain a list of items to be reimbursed, assess the reasonableness of the amounts of assistance requested, and obtain receipts to substantiate all actual costs incurred.**

Ministry Response

The Ministry agrees. The Ministry will reiterate with Ontario Works service managers the requirements to assess the reasonableness and accuracy of community and employment start-up assistance.

Pursuing Spousal and Child Support

Under provisions of the *Ontario Works Act,* recipients of financial assistance are required to make all reasonable efforts to pursue any spousal and/or child support they may be entitled to. If the caseworker is not satisfied that the recipient is making reasonable efforts in that regard, the caseworker may determine that the person is not eligible for basic financial assistance or reduce the amount of assistance by the amount of support that, in the caseworker's opinion, would be available if a reasonable effort had been made to obtain it. In addition, the recipient may be referred to a Family Support Worker who may assist the recipient in pursuing spousal and/or child support.

In the case of court-ordered support, rights to the support payments may be assigned to the service manager, which is usually done when support is not being regularly paid. In these cases, the recipient receives full Ontario Works assistance entitlements, and it is the service manager's obligation to collect the court-ordered support.

The Ministry does allow for circumstances where it is not reasonable to pursue support. For example, a caseworker may waive the obligation to pursue support when the recipient's former partner cannot be located, is in a penal institution, or is likely to become violent if support is pursued. Waivers for pursuing support are generally valid for a three-month period, after which the obligation to pursue support must again be assessed.

The degree of review a caseworker performs when assessing the adequacy of recipients' efforts to pursue support is a function of the caseworker's professional judgment. This results in inconsistent practices in this area and ultimately could lead to a lack of assurance that all reasonable efforts to obtain support have been taken.

We reviewed a sample of files for which spousal or child support was potentially obtainable and, in most cases, found no evidence to indicate that support was in fact being pursued. Even in those cases where the recipient had been referred to a Family Support Worker, we still often found no evidence to indicate what steps, if any, had been taken to pursue support.

We also found that for most cases where a waiver to pursue support was on file, the waiver had expired. In addition, we often found no evidence on file to indicate that the caseworker had received, verified, or assessed any information to determine whether the waiver to pursue support was warranted either initially or periodically afterward.

Recommendation

To help ensure that Ontario Works recipients who may be eligible for spousal and/or child support actively pursue such support, the Ministry should ensure that service managers:

- **ascertain and are able to demonstrate that all recipients entitled to such support have taken reasonable efforts to attain it; and**
- **adequately document the information received, assessed, and verified in issuing a waiver to pursue support, and document the reassessment of the decision at the time the waiver expires.**

Ministry Response

The Ministry agrees. The Ministry will reinforce with Ontario Works service managers the current file documentation requirements for family support.

Recipient Overpayments

Overpayments occur when the amount of assistance provided to recipients exceeds the amount they are entitled to receive. The amounts of unrecovered overpayments to recipients are substantial. As of February 2002, Ministry records indicated that overpayments outstanding on over 49,000 active accounts totalled $77.4 million. Overpayments outstanding for approximately 274,000 inactive accounts totalled $336.9 million as of that date. However, we understand that the reliability of this summary information is somewhat questionable because many of the individual account balances, which were the basis of the summary information, were found to be in error when reviewed.

We also noted instances where assistance was provided in excess of the established maximum amounts. For example, annual maximum amounts for both community and employment start-up assistance were often provided more than once in a 12-month period and, in one case, twice in the same month.

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Overpayments to active recipients are generally recovered through a 5% reduction to the recipient's monthly assistance payments until the overpayment is recovered in full. Overpayments to inactive clients are to be recovered through the collection efforts of service managers. Although overpayment recoveries are to be shared between the Ministry and the service manager on an 80:20 basis (the same basis on which they were originally funded), the Ministry has not assessed overpayment-recovery procedures for service managers in the last four years.

We found that service managers' efforts in collecting overpayments from inactive accounts were not adequate and were adversely affected by the following factors:

- Staff resources assigned to the collection function were often inadequate. For example, at one service manager we visited, one person was assigned to recover overpayments from 10,000 accounts representing $10 million in outstanding receivables.
- One service manager had made no attempt to collect outstanding overpayments after the introduction of the new information technology system in January 2002 because of the difficulty in determining the reasons for overpayments and in correcting outstanding balances for individual accounts after that date.
- Since the information technology system does not support the collection function and cannot interface with the service manager's own computer collection systems, the collection process is labour intensive and prone to manual input errors.
- Service managers cannot effectively age or readily identify many old outstanding balances that are likely uncollectible and therefore should be written off.

In light of the above-noted concerns, actual recoveries of overpayments from inactive accounts were minimal for the service managers we visited. For example, total recoveries averaged approximately 2% of the average amounts outstanding during 2001.

Recommendation

To maximize the recovery of overpayments to inactive recipients of Ontario Works assistance, the Ministry should:

- **ensure that its information technology system correctly indicates overpayment balances, allows the reasons for overpayments to be readily determined, and better supports the collection function;**
- **ensure that service managers actively pursue the recovery of overpayments from inactive clients where warranted; and**
- **consider the development of a policy for writing off uncollectible accounts so that uncollectible outstanding accounts can be identified and written off on a timely basis.**

Ministry Response

The Ministry agrees. The Ministry is committed to improving the capacity of the information technology system to support the collection and recovery of overpayments by Ontario Works service managers.

The Ministry will consider the development of a policy for writing off uncollectable accounts so that the outstanding uncollectable accounts can be identified and written off on a timely basis.

Service-manager Claims for Financial Assistance Costs

Each service manager is required to submit a monthly claim to the Ministry for its 80% share of actual financial-assistance payments provided to Ontario Works recipients. Prior to the introduction of the new information technology system, we understand that service managers had accurate and reliable expenditure information on the financial assistance they provided, which was used to prepare their monthly claims to the Ministry. However, since the introduction of the new information technology system, accurate and reliable expenditure information is no longer available. Although the new system produces both a summary expenditure report for Ontario Works benefits as well as a detailed payment listing, information with respect to total payments contained in these reports differed significantly and both differed again from the service managers' banking records.

As a result, two of the three service managers we visited could no longer submit monthly claims to the Ministry based on their actual Ontario Works program expenditures. Instead, the Ministry funded these service managers based on an average of three months' actual expenditures prior to the introduction of the new system, and, in some cases, with adjustments that the service managers did not understand and could not explain.

The third service manager had the necessary resources and expertise to process and analyze ministry-provided data extracts to produce program-expenditure reports that could be reconciled with its banking records. It therefore was able to continue to submit monthly claims to the Ministry based on its actual program expenditures after the introduction of the new system. We noted that the unexplained differences between this service manager's actual monthly expenditures and the summary expenditure reports produced by the system were substantial. For the six months prior to April 2002, these differences averaged $1.2 million per month and were as high as $5.4 million out of total expenditures of approximately $42 million.

Recommendation

To enable service managers to submit monthly claims to the Ministry for their share of actual Ontario Works assistance benefits provided, the Ministry

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In light of the above-noted concerns, actual recoveries of overpayments from inactive accounts were minimal for the service managers we visited. For example, total recoveries averaged approximately 2% of the average amounts outstanding during 2001.

Recommendation

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Ministry Response

The Ministry agrees. The Ministry is committed to improving the capacity of the information technology system to support the collection and recovery of overpayments by Ontario Works service managers.

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Recommendation

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should ensure that the new information technology system produces accurate and reliable program-expenditure reports.

Ministry Response

The Ministry agrees. The Ministry is committed to ensuring financial accountability and will work with Ontario Works service managers to improve and enhance the accuracy and reliability of the new information technology system.

Participation Agreements

During the time a person is receiving Ontario Works financial assistance, both that individual and all other adult members of that person's family unit must sign an Ontario Works participation agreement. The agreement obligates the signer to take part in one of the three types of employment assistance activities described in the Background section of this report. A caseworker is to assign each participant the type of activity most appropriate for helping that participant find and maintain a paid job. Participation agreements are generally valid for a three-month period, after which the participant's progress and needs must be reassessed and reflected in a renewed participation agreement, which is valid for a further three months. Longer-term participation agreements are permitted for individuals with deferred participation requirements, for example, sole-support parents with pre-school-age children.

We reviewed a sample of participation agreements and related summary information about them available from the Ministry and noted the following.

- Many participation agreements were incomplete, often lacking information about an individual's educational background and employment history, information that is important for assessing the appropriate employment assistance activity. In that regard, we noted that:
    - approved participation agreement activities were generally based on client self-assessments rather than assessments by caseworkers of recipients' skills and work experience; and
    - many clients were spending extensive time working at an approved activity without evidence to indicate that the caseworker had assessed the activity for appropriateness. For example, in one instance a participant spent 30 months on independent job-search activity and, in another instance, a participant spent more than 19 months on a training activity without evidence that the activity had been regularly assessed by the caseworker for appropriateness.
- Many of the most recent participation agreements on file were expired, some for periods of between six and twelve months. For example, at one service manager we visited,

approximately 70% of all participation agreements had expired, with the result that the current circumstances and needs of those participants had not been reviewed and reflected in revised participation agreements.

Recommendation

To help ensure the Ontario Works program meets its objective of helping recipients find and maintain paid jobs, the Ministry should ensure that service managers:

- **obtain and assess information about each recipient's educational background and employment history to identify the employment-assistance activities most appropriate for that recipient; and**
- **maintain up-to-date participation agreements that accurately reflect individuals' employment-assistance activities and their current employment-assistance needs.**

Ministry Response

The individualized participation agreement tailored to the individual's needs is a cornerstone of the Ontario Works program. With that in mind, the Ministry is in agreement with the recommendation and will take measures to assist Ontario Works service managers to strengthen business practices.

Ministry Monitoring of Service Managers

The Ministry requires each of its nine regional offices to conduct two types of annual reviews of service managers within its jurisdiction to assess compliance with legislative and administrative policy requirements:

- Program-compliance reviews generally consist of a review of a sample of case files to assess whether or not they comply with selected program requirements.
- Subsidy-claims examinations are designed to determine whether service-manager claims to the Ministry for the Ministry's share of assistance payments are complete, accurate, and based on actual payments to assistance recipients.

We found that the required compliance reviews for the service managers we visited were generally being conducted on an annual basis. We examined a sample of compliance-review reports and noted that they identified many of the same concerns we identified during our audit as detailed in the earlier sections of this report. However, although the regional offices are required to ensure that service managers have taken any necessary corrective action, we often found little evidence that such corrective action had been taken.

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We understand that, at the time of our audit, most service managers were not submitting monthly claims to the Ministry based on actual program expenditures because of the difficulties with the information technology system noted above. For earlier periods, we found that the required annual subsidy-claims examinations had not been conducted for a long time or had not been adequately conducted:

- For two of the three service managers we visited, the required annual subsidy-claims examination had not been completed for the past four years.
- For the other service manager, a subsidy-claims examination had been completed during the past year, but the scope of the work undertaken was not adequate to conclude on the completeness and accuracy of the service manager's claims because insufficient work was undertaken on the basic assistance amounts that represented a majority of the total claim.

Recommendation

To help verify that service managers' subsidy claims are complete, accurate, and based on actual payments to recipients, the Ministry should ensure that:

- **actions to correct deficiencies indicated by compliance reviews are carried out;**
- **subsidy-claims examinations are undertaken annually, as required; and**
- **the scope of the work undertaken during subsidy-claims examinations is adequate to conclude on the completeness and accuracy of the claim.**

Ministry Response

The Ministry agrees. The Ministry will undertake subsidy-claims examinations annually, and, in addition, deficiencies identified in compliance reviews will be acted on and monitored.

MEASURING THE EFFECTIVENESS OF ONTARIO WORKS

The Ministry provides its service managers with a comprehensive set of program directives, decision-making principles, and program delivery standards. In addition, the Ministry enters into binding service agreements with its service managers that include service targets that are tied to payments for service. However, the Ministry also needs to systematically capture the information necessary to assess program outcomes and hence program effectiveness.

In that regard, we noted that the 2001/02 Business Plan for the Ministry included the target of a 5% reduction of the Ontario Works caseload for that year as a measure of the program's success. We also noted that the Ministry frequently refers to decreases in the number of people receiving benefits as an indication of the program's success. For example, an October 26, 2001 announcement posted on the Ontario government's Web site reported that "7,683 people left the welfare rolls between July and September 2001," and attributed their leaving to the success of the program.

Significant decreases in the number of recipients are thus considered by the Ministry to be an indication that the program is meeting key objectives, including reducing dependency and cost to taxpayers. However, the reporting on Ontario Works caseload reductions has not differentiated between departures that represent a successful program outcome, such as a recipient finding employment as a result of Ontario Works assistance, and other departures not related to the program's operations, such as recipients moving to another province or securing other income such as Canada Pension Plan benefits.

We acknowledge that identifying successful program outcomes is inherently difficult because many factors not related to the Ontario Works program can influence the number of people leaving Ontario Works. These include:

- improvements in the general economy and the creation of the types of jobs Ontario Works recipients are most likely to qualify for;
- local conditions and seasonal factors that influence the availability of jobs in a given area; and
- individual commitment and personal initiative to find and maintain a job on the part of assistance recipients.

When recipients leave Ontario Works, caseworkers are to choose a termination code that best describes the circumstances. The Ministry's intent is to use these codes to track why recipients have left the program. However, at the time of our audit, these codes could not reliably be used for this purpose for the following reasons:

- The circumstances under which some specific termination codes were to be used were not well understood, and codes were used inconsistently by service managers.
- Many of the termination codes used by the caseworkers did not reflect the circumstances of the terminations. We found examples at two of the service managers we visited. One terminated recipient was incarcerated in a penal institution, but the termination code used indicated that termination had occurred because the individual had not reported income as required. Another recipient had found a job but was coded a "voluntary withdrawal, unknown."
- One of the codes—"voluntary withdrawal"—does not provide meaningful information about the termination. Over 50,000 terminations between 1998 and 2000 were coded as "voluntary withdrawal."

Recommendation

To determine the effectiveness of the Ontario Works program in helping assistance recipients to become self-reliant, the Ministry should:

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- One of the codes—"voluntary withdrawal"—does not provide meaningful information about the termination. Over 50,000 terminations between 1998 and 2000 were coded as "voluntary withdrawal."

Recommendation

To determine the effectiveness of the Ontario Works program in helping assistance recipients to become self-reliant, the Ministry should:

- **capture and assess the management information necessary to evaluate program effectiveness and take corrective action where necessary; and**
- **look for ways to make termination codes more useful and ensure that service managers understand the circumstances under which specific termination codes are to be used and use the codes consistently.**

Ministry Response

The Ministry agrees that improvements to the economy and job creation are important complements to the effectiveness of the Ontario Works program in helping approximately 600,000 people leave the welfare system. By fostering personal initiative and providing effective employment-assistance measures, Ontario Works is meeting its objective of helping people to become self-reliant.

The Ministry agrees that it is important to capture and assess data to evaluate program effectiveness and to take corrective action where and when necessary.

The Ministry supports the appropriate and effective use of termination codes by Ontario Works service managers.

OTHER MATTER

ONTARIO WORKS ADMINISTRATION COSTS

The Ministry reimburses the 47 service managers for 50% of their direct costs for their administration of Ontario Works up to an annual, negotiated maximum amount. We understand that each annual, negotiated maximum amount is largely based on historical funding rather than on Ontario Works caseloads, even though a 2000 ministry study of administration expenses found that caseload size is the most relevant consideration in funding decisions.

Our review of the amounts of administration funding the Ministry provided to all service managers as a function of their caseloads showed significant variances, as the following table demonstrates.

Ministry Funding of Administration Costs for Service Managers per Case, 2000/01 ($)

Average	740
Lowest	273
Highest	1,596

Source of data: Ministry of Community, Family and Children's Services

As can be seen from the table, the service manager with the highest ministry funding for administration costs per case received almost six times as much per case as the lowest-funded service manager. We wanted to find out the effect these funding discrepancies had, if any, on the number of caseworkers at individual service managers and their resultant caseloads and assess the likely impact on program delivery. However, the Ministry could not provide us with any information in that regard.

Recommendation

To help ensure that Ontario Works program administration is funded reasonably and equitably among service managers, the Ministry should consider caseload information in its funding decisions.

Ministry Response

The Ministry agrees and has already communicated that funding for cost of administration will be linked to caseloads.

- **capture and assess the management information necessary to evaluate program effectiveness and take corrective action where necessary; and**
- **look for ways to make termination codes more useful and ensure that service managers understand the circumstances under which specific termination codes are to be used and use the codes consistently.**

Ministry Response

The Ministry agrees that improvements to the economy and job creation are important complements to the effectiveness of the Ontario Works program in helping approximately 600,000 people leave the welfare system. By fostering personal initiative and providing effective employment-assistance measures, Ontario Works is meeting its objective of helping people to become self-reliant.

The Ministry agrees that it is important to capture and assess data to evaluate program effectiveness and to take corrective action where and when necessary.

The Ministry supports the appropriate and effective use of termination codes by Ontario Works service managers.

OTHER MATTER

ONTARIO WORKS ADMINISTRATION COSTS

The Ministry reimburses the 47 service managers for 50% of their direct costs for their administration of Ontario Works up to an annual, negotiated maximum amount. We understand that each annual, negotiated maximum amount is largely based on historical funding rather than on Ontario Works caseloads, even though a 2000 ministry study of administration expenses found that caseload size is the most relevant consideration in funding decisions.

Our review of the amounts of administration funding the Ministry provided to all service managers as a function of their caseloads showed significant variances, as the following table demonstrates.

Ministry Funding of Administration Costs for Service Managers per Case, 2000/01 ($)

Average	740
Lowest	273
Highest	1,596

Source of data: Ministry of Community, Family and Children's Services

As can be seen from the table, the service manager with the highest ministry funding for administration costs per case received almost six times as much per case as the lowest-funded service manager. We wanted to find out the effect these funding discrepancies had, if any, on the number of caseworkers at individual service managers and their resultant caseloads and assess the likely impact on program delivery. However, the Ministry could not provide us with any information in that regard.

Recommendation

To help ensure that Ontario Works program administration is funded reasonably and equitably among service managers, the Ministry should consider caseload information in its funding decisions.

Ministry Response

The Ministry agrees and has already communicated that funding for cost of administration will be linked to caseloads.

MINISTRY OF FINANCE

3.02–Corporations Tax

BACKGROUND

Generally, the *Ontario Corporations Tax Act* imposes taxes on all corporations that have a permanent establishment in Ontario or that owned and received income from or disposed of real property in Ontario as follows:

- Income tax is currently payable at a general rate of 12.5% of taxable income earned in Ontario. On the first $280,000 of active business income earned by a Canadian-controlled private corporation (CCPC), this rate is reduced by 6.5%. For income earned from manufacturing and processing that is not eligible for the CCPC reduction, this rate is reduced by 1.5%.
- Capital tax is payable on a corporation's taxable paid-up capital (generally 0.3% of taxable capital in excess of $5 million).
- Premium tax is payable on insurance policies written for persons residing in and property situated in Ontario at a rate of 2% to 3% of gross premiums.
- Corporate minimum tax is payable by certain larger corporations or associated groups that have annual gross revenues in excess of $10 million or total assets in excess of $5 million.

We note that the Ontario basic corporations income tax rate of 12.5% is, on average, 3% lower than the comparable rates in the other provinces.

Ontario, Quebec, and Alberta are the only three provinces in Canada that require corporations to file a provincial corporations tax return directly with the province. The Canada Customs and Revenue Agency (CCRA) collects provincial corporations taxes on behalf of the other provinces through the federal corporations tax system. The CCRA also provides Ontario with daily electronic transmissions of data regarding federal corporations tax assessments and reassessments that are reviewed to determine their effect on provincial tax owed.

Certain governmental and non-profit organizations, such as municipalities, Crown corporations, and registered charities, are exempt from Ontario corporations tax and are therefore not required to file a Ontario corporations tax return.

For the 2001/02 fiscal year, the province collected approximately $6.6 billion in corporations taxes. Although the Ministry was not able to provide us with a summary of the types of taxes making up this total, we noted that, for the 2000/01 fiscal year, the total of approximately $9.2 billion in corporations taxes collected by the province consisted of $7.2 billion in corporations income tax; $1.3 billion in capital tax; $534 million in premium tax; and $139 million in corporate minimum tax. Collectively these corporations taxes represent approximately 19% of the total tax revenue collected by the Ministry during the year. They also represent a significant increase from the $5.4 billion in corporations taxes collected at the time of our last audit of this program in 1996.

The Corporations Tax Branch (Branch) of the Ministry of Finance has primary responsibility for the administration and, together with staff at the four regional tax offices, the enforcement of the *Ontario Corporations Tax Act*. Most of the 770 staff involved in corporations tax collection work either in the operations or audit areas of the Ministry. Approximately 165 operations staff are located in Oshawa and primarily process tax returns and maintain corporations account information. A total of about 500 audit staff are located in the Ministry's head office in Oshawa and four regional tax offices in North York, Mississauga, London, and Ottawa. Branch expenditures for the year totalled $45.2 million, of which almost 90% was for staff salaries and benefits.

The Branch's activities are supported by the comprehensive computer-based Integrated Tax Administration System, which facilitates the maintenance of the corporations tax database, the processing of tax returns, the issuing of assessments, and the performance of the accounting function for taxpayer accounts and provides other information as may be required from time to time.

The Branch is also supported by other ministry branches: the Revenue Operations and Client Services Branch receives and processes tax receipts; the Collections and Compliance Branch pursues outstanding tax balances and overdue returns; the Special Investigations Branch investigates complex cases of suspected non-compliance; and the Tax Appeals Branch handles objections and appeals filed by taxpayers.

AUDIT OBJECTIVE AND SCOPE

The objective of our audit was to assess whether the Ministry had adequate policies and procedures in place to ensure that the appropriate amount of corporations tax is declared and remitted by taxpayers in accordance with statutory requirements.

Our audit work included a review and analysis of relevant ministry files and administrative policies and procedures as well as detailed interviews with appropriate staff at the Corporations Tax Branch and regional tax offices, the Revenue Operations and Client Services Branch, the Collections and Compliance Branch, the Special Investigations Branch, and the Tax Appeals Branch. We also obtained relevant information from the CCRA and held discussions with staff from other provincial finance ministries.

Our audit work covered the period up to March 31, 2002, with emphasis on the policies and procedures in place with respect to corporations tax revenues processed in the 2001/02 fiscal year. Our work was primarily conducted in the period from September 2001 to the beginning of the Ontario Public Service Employees' Union strike in February 2002. We also obtained information from telephone calls made both during and after the strike and meetings with ministry staff held from the time the strike ended in early May up to June 2002.

Our audit was conducted in accordance with the standards of assurance engagements encompassing value for money and compliance, established by the Canadian Institute of Chartered Accountants, and accordingly included such tests and other procedures as we considered necessary in the circumstances. Prior to the commencement of our work, we identified the audit criteria that would be used to address our audit objectives. These criteria were reviewed and agreed to by senior ministry management.

During the planning phase of our audit, we reviewed prior audit reports issued by the Ministry's Internal Audit Services Branch with respect to the Corporations Tax program to determine whether the work of the branch could be relied on to reduce the extent of our work. As a result, we relied on the Internal Audit Services Branch's work on both the processing of corporations tax receipts by the Revenue Operations and Client Services Branch as well as the collection and write-offs of accounts in default by the Collections and Compliance Branch and carried out no further audit work in these areas. We also reviewed two other reports by the Internal Audit Services Branch on the Corporations Tax Branch in Oshawa and one regional tax office. However, we decided not to rely on these reports since the scope of our audit and the approach we took were significantly different from those of the Internal Audit Services Branch.

OVERALL AUDIT CONCLUSIONS

Many corporations voluntarily declare and remit the correct amount of corporations tax. This fact, combined with the strong economy of the late 1990s, contributed significantly to the very substantial increase in corporations tax revenues from $5.4 billion in the 1995/96 fiscal year (reported in our last audit in 1996) to $6.6 billion in the 2001/02 fiscal year ($9.2 billion in the 2000/01 fiscal year).

However, where corporations did not voluntarily comply, the Ministry did not have adequate policies and procedures in place to ensure that the appropriate amount of corporations tax was being declared and remitted by taxpayers in accordance with statutory requirements. Although research by the Canadian Tax Foundation on the growth of the underground economy indicates that the tax gap—the difference between the amount of all taxes actually collected and the amount that should be collected—is increasing, the Ministry did not assess or evaluate the extent to which the tax gap affected provincial corporations tax revenue. The Ministry also did not assess the risk of significant non-compliance for all corporations that had filed a return and therefore did not select for audit those with the highest overall risk. It is our view that the tax gap with respect to provincial corporations tax may well be substantial.

As an example of the extent to which corporations did not voluntarily comply, we found that of the 763,000 corporations with active accounts, at least 355,000 corporations—or almost half—were in default of filing required returns. The total number of outstanding returns for all the years in which those corporations failed to file was at least 930,000. Both the number of corporations in default of filing and the number of outstanding returns have significantly increased since 1996, when one in five active corporations failed to file and the number of outstanding returns was 128,700. These increases are generally attributable to the Ministry's reduced efforts in recent years to follow up on overdue returns, the new annual EFF filing requirement introduced in January 2000, and the significant increase in the number of active accounts. We also noted that:

- Although information about corporations has been provided by the Ministry of Consumer and Business Services (MCBS) to the Branch since the 1970s and has been used to automatically update the corporations tax roll on a weekly basis, the Ministry does not regularly compare all active registrants in the MCBS database with those in the corporations tax roll to ensure that all corporations that are registered with MCBS and required to file a corporations tax return continue to be included in the corporations tax roll.

  In that regard, we noted that a one-time matching of the MCBS database with the corporations tax roll in 1998 identified 40,600 corporations that were active in the MCBS database but not included in the corporations tax roll. Although we were advised that many of these corporations were subsequently added to the corporations tax roll as a result of either a manual review in 1998 or a one-time data synchronization project in 1999, the Ministry did not have the information necessary to corroborate that assertion.

  We also noted that the Ministry was currently negotiating an agreement with MCBS under which the MCBS database and the corporations tax roll would be compared and synchronized every six to 12 months.

- The Ministry closed approximately 40,000 accounts in the Integrated Tax Administration System (ITAS) that maintains the tax roll, which means that a tax return related to any of those accounts would not be expected, and therefore the accounts were not included in the Ministry's statistics on corporations in default of filing; however, since these accounts were still registered as active with MCBS and any of them might still meet the requirements for filing a tax return, tax returns could have been required.

With respect to its function of auditing taxpayer returns, we found the following:

- Although the number of discretionary field and desk audits has increased significantly since the time of our last audit in 1996 (field audits have more than doubled, and there

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has been substantial improvement in the number of desk audits), for corporations with annual gross revenues of $500,000 and over, the number of desk audits completed was only about half of the number planned. For corporations with annual gross revenues of under $500,000, very few field or desk audits were performed. This limited the degree to which the Ministry could meet its objective of encouraging broad-based voluntary compliance.

Although the Ministry has made a deliberate decision to rely on the CCRA for the audit of smaller corporations, it needs to obtain the necessary information to assess whether such reliance is justified.

- The Ministry's audit file documentation did not clearly demonstrate that the necessary audit work had been adequately planned and performed and that all work had been reviewed and approved by the appropriate manager. When these steps are not taken, the Ministry cannot clearly establish whether or not all taxes owed by the taxpayer audited have been correctly declared and received.
- The Ministry did not provide sufficient training to auditors to promote their technical competence. Insufficient training may limit the ability of auditors to effectively address complex technical and industry-specific tax issues.

We also found that the Branch's Tax Advisory Unit did not respond to all inquiries from other units in the Branch on a timely basis and did not ensure that, where considered necessary, all decisions by the Tax Appeals Branch and the courts regarding audit assessments and audit assessment reversals were summarized and communicated to the appropriate parties.

Overall Ministry Response

We appreciate the Provincial Auditor's various observations and suggestions on the administration of the Corporations Tax program.

The Provincial Auditor raises valid issues, many of which the Ministry is already in the process of addressing. The Ministry will address changes, as recommended in the report, in a way that appropriately incorporates risks and available resources.

DETAILED AUDIT OBSERVATIONS

TAX RETURN FILING

Under the provisions of the *Ontario Corporations Tax Act*, generally all corporations that have a permanent establishment in Ontario or that owned and received income from or disposed of real property in Ontario must deliver a tax return for each taxation year to the has been substantial improvement in the number of desk audits), for corporations with annual gross revenues of $500,000 and over, the number of desk audits completed was only about half of the number planned. For corporations with annual gross revenues of under $500,000, very few field or desk audits were performed. This limited the degree to which the Ministry could meet its objective of encouraging broad-based voluntary compliance.

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DETAILED AUDIT OBSERVATIONS

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Ministry on or before the last day of the sixth month after the end of the taxation year. Alternatively, a corporation may annually file an exempt-from-filing (EFF) declaration if it meets all of the following requirements:

- It has filed the required federal corporations tax return.
- It has no Ontario-based taxable income and has no Ontario corporations tax payable for the year.
- It was a Canadian-controlled private corporation (CCPC) throughout the duration of the year.
- It has provided the Ministry with its Canada Customs and Revenue Agency (CCRA) business number.
- It is not subject to the corporate minimum tax.

Tax returns can be filed in any one of three formats. About 80% of filed returns are in paper format completed using ministry-approved software; about 10% are in paper format completed using ministry-provided forms; and the remaining 10% are filed on disk.

All returns are received in the Ministry's Revenue Operations and Client Services Branch. This branch ensures that all accompanying payments are deposited and credited to the appropriate taxpayer's account on the day of receipt and then forwards the return to the Operations area of the Corporations Tax Branch for processing.

In the Operations area, approximately 100 data fields from each tax return are keyed into the Integrated Tax Administration System. If some of the information required to issue an assessment is missing or otherwise questionable, the return is referred to the appropriate section for follow-up. If the information provided in the return is complete and accurate, an assessment is normally issued automatically.

Reassessments may be issued at a later date as a result of additional information provided by the taxpayer or as a result of a ministry audit. The *Ontario Corporations Tax Act* permits reassessments to be issued within four years from the mailing of the original notice of assessment for CCPCs and within five years for all other corporations. Thereafter, the taxation period becomes statute barred, which means that the return cannot be reassessed. However, the four- and five-year deadlines can generally be extended if: a waiver is filed by the corporation; the provincial reassessment is to be issued as a result of uncovered fraud; or a federal tax assessment or reassessment was issued.

From January 1, 2000 onwards, the Ministry has been imaging all paper returns processed, as well as supporting documentation submitted with disk-filed returns. Imaged returns are accessible electronically for use by the appropriate staff of the Corporations Tax Branch and regional tax offices.

The Corporations Tax Roll

The Ministry's Integrated Tax Administration System (ITAS) includes a corporations tax roll. As of December 2001, the corporations tax roll contained approximately 1.1 million registrants, of which 763,000 were active and therefore expected to file an annual return. The remaining registrants consisted primarily of corporations whose accounts had been closed.

In general, all corporations that carry on business in Ontario, regardless of where they are incorporated, must register with the Ministry of Consumer and Business Services (MCBS). In addition, corporations must advise MCBS of significant changes in their circumstances (for example, if a corporation amalgamates with another corporation, dissolves, or ceases to operate in Ontario). Since the 1970s, information about corporations provided to MCBS has been used to update the Ministry's corporations tax roll. Currently, on a weekly basis, all changes in a corporation's information that MCBS has received are electronically transmitted to the Ministry, and ITAS automatically updates the tax roll. For example, in the case of an amalgamation of corporations, ITAS opens a new account for the newly amalgamated corporation that is linked to the predecessor corporation accounts, which are then closed. The corporations tax roll may also be updated manually, in cases such as the following:

- when a tax return is received from a corporation that is not already on the tax roll; and
- when electronic transmissions of data regarding federal corporations tax assessments and reassessments are received from the CCRA for corporations that are not already on the tax roll.

However, we noted that the Ministry does not regularly compare all active registrants in the MCBS and ITAS databases and ensure that all corporations registered with MCBS that are required to file a corporations tax return continue to be included in the corporations tax roll in ITAS. A one-time matching of the MCBS database with the ITAS tax roll in 1998 found that there were 40,600 corporations active in the MCBS database that were not set up in ITAS. We understand that, as a result of a one-time data synchronization project in 1999, MCBS data were used to automatically update the corporations tax roll in ITAS. However, information describing how 39,900 of the discrepancies identified in 1998 were resolved and information about the results of the data synchronization was not available at the time of our audit.

We understand that the Ministry is currently negotiating an agreement with MCBS under which the MCBS database and the ITAS tax roll would be compared and synchronized every six to 12 months.

We also noted that the Ministry had manually closed about 40,000 accounts in ITAS that were still registered as active with MCBS and might still meet the requirements for filing a tax return. However, the result of closing the accounts was that these corporations would no longer be expected to file a tax return and would not be included in the Ministry's statistics on corporations in default of filing tax returns. We understand that in the case of about 15,000 of these accounts, the corporations owed money to the Ministry, and the accounts were closed in part to permit the Ministry to write off the outstanding amounts. However, none of the accounts should have been closed, since, as noted, all were still registered as active with MCBS, and insofar as any of the accounts might still meet the requirements for filing a tax return, tax returns could have been required.

Corporations in Default of Filing

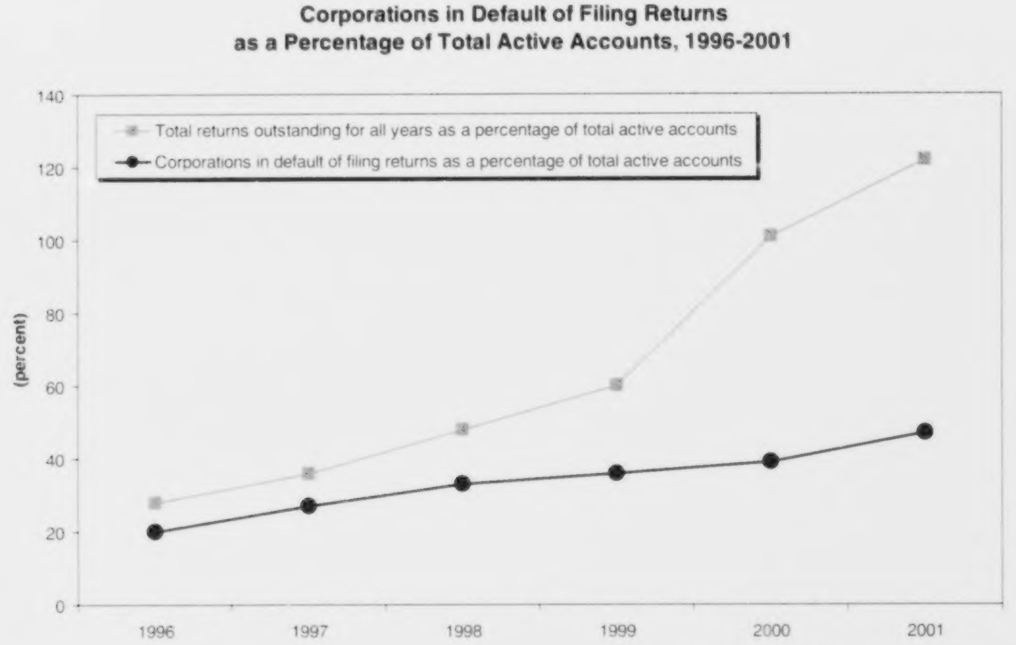
In any year, a certain number of active corporations are in default of filing tax returns, and many of these corporations have failed to file returns over a number of years. For example, ministry records indicated that in 2001, 355,000 corporations, from a total of 763,000 corporations with active accounts, were in default of filing returns. The total outstanding returns for all the years in which those corporations failed to file was 930,000. The following table shows the number of active corporations in default of filing returns each year as well as the overall number of returns not filed over the years the corporations have been in default.

Corporations in Default of Filing Returns, 1996–2001

Taxation Year	# of Corporations with Active Accounts	# of Corporations in Default of Filing Returns	# of Related Returns Outstanding For All Years in Default
1996	464,138	92,950	128,700
1997	545,530	147,700	200,000
1998	563,317	185,000	268,000
1999	605,000	220,000	365,000
2000	685,000	265,000	690,000
2001	763,000	355,000	930,000

Source of data: Ministry of Finance

When the default and returns outstanding data are expressed as a percentage of total active accounts, a dramatic increase since the time of our last audit in 1996 is seen, as in the following line graph.



Source of data: Ministry of Finance

The Ministry attributed the increase in the number of corporations in default of filing in 2000 and 2001 in part to the new annual EFF filing requirements, which came into effect on January 1, 2000, and to the absolute increase in the number of active corporations. However, since many of the corporations that were presumed to be EFF eligible did not meet all of the requirements for EFF status, they really are in default. As a result, the Ministry's default statistics for 2000 and 2001 correctly include these corporations, and the default statistics for 1999 and earlier years are most likely significantly understated.

Overall, the increases in the number of corporations in default of filing since the time of our last audit are largely attributable to the Ministry's reduced efforts in recent years in following up on overdue returns. Examples of those reduced efforts include the following:

- Default notification letters requesting that outstanding returns be filed have not been regularly sent since 1995.
- The threat to cancel a corporation's charter and seize its assets as a deterrent to chronic non-filers has not been used since 1997.

We also understand that the Ministry's efforts in this area are being hampered by inaccuracies in ITAS; for example, we were advised that the addresses of 71,000 corporations in default of filing returns are currently being traced so that notices requesting the required returns can be issued.

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Another means of encouraging a corporation to file an overdue return is to issue it an arbitrary assessment of taxes owing based on the most recently filed return. However, we found that the Ministry seldom uses this measure.

We noted that in February 2001, the Ministry established a unit, presently staffed at 15 employees, but ultimately to be staffed at 30 employees, to follow up on corporations that failed to file a required return. The initial focus of the unit was on corporations that had filed a recent return but had at least one return outstanding for an earlier year. By the end of December 2001, approximately 2,700, or 80%, of the 3,400 corporations that the Ministry followed up on filed the required returns. These returns generated $2.6 million in self-assessed tax. In addition, 30 corporations were arbitrarily assessed taxes totalling $130,000. The Ministry advised us that it hopes to collect $115 million in additional taxes from all corporations in default of filing a required return by the end of the 2003/04 fiscal year.

We estimated that, using the Ministry's current processes, once the unit is fully staffed it will take a significant number of years to follow up on and clear all corporations currently in default of filing a required return.

Recommendation

To help ensure that all required corporations tax returns are received and processed and that the appropriate amount of taxes is collected, the Ministry should:

- **regularly compare the corporations registered in the Ministry of Consumer and Business Services database with those in its own corporations tax database and investigate and resolve discrepancies on a timely basis;**
- **make better use of available tools to enforce compliance by defaulting corporations; and**
- **assess whether additional resources and procedures are warranted to follow up on all outstanding returns and ensure that those returns are appropriately submitted.**

Ministry Response

The Ministry has to date implemented or taken the appropriate steps to initiate the following measures in these areas:

- ***Weekly reports from the Ministry of Consumer and Business Services database will be analyzed in comparison to the corporations tax database.***
- ***Another comprehensive synchronization of the two databases will take place in the fall of 2002.***
- ***Over the past year, the Ministry has applied additional staff and information technology (IT) resources to more effectively follow up on corporations with outstanding returns; the corporations tax database is being matched with federal data to further enhance current risk assessment techniques.***

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- ***Selective default notices have and continue to be issued for higher-risk corporations tax returns that are overdue.***
- ***Charter cancellation will be enforced for non-compliant corporations.***

We will continue to assess whether additional staff and IT resources are required to adequately address the volume of accounts with outstanding tax returns or annual declarations due and to validate their exempt-from-filing status. This would also include reviewing the practice and criteria for selective sending of default notices.

TAX RETURN PROCESSING

The Ministry has an informal guideline in place that requires a submitted tax return to be processed and an assessment to be issued within three to five days of receipt of the return.

We noted that the vast majority of tax returns that are submitted to the Ministry include all of the required information. We found in our review of a sample of such returns that the returns were processed and the assessments were generally issued within three to five days of receipt of the return, as required by the Ministry's guideline.

However, filed tax returns cannot be completely processed in the following circumstances:

- The filed return either lacks required information, or some information provided appears to be questionable and therefore requires verification before the return can be completely processed.
- The taxpayer filing the return is in default of filing a previous year's return.

Returns that cannot be processed are referred to the appropriate unit for follow-up. However, in many cases there was no evidence that the Ministry did follow up on the missing information, and therefore these returns were often not processed on a timely basis. For example:

- As of December 2001, the Ministry held but could not process 8,000 filed returns because the taxpayers were in default of filing a previous year's return. Approximately 10% of these returns had been held for over a year. We were advised that the Ministry had not made any attempts since September 2001 to obtain the missing previous years' tax returns for approximately 6,500 of these returns.
- As of December 2001, the Ministry held approximately 19,000 returns that could not be processed because they lacked some of the required information or because information provided had to be verified. Many of these had been held for an extended period of time—in some cases for over a year and for as long as four years. We found in our review of a sample of these returns that in many cases it was not clear what if anything had been done by staff at the units to which the returns had been assigned to obtain the required information.

In August 2001, the Ministry assigned one person to follow up with the units to which the returns had been assigned.

Recommendation

To ensure that filed returns can be processed and that the correct amount of tax is collected or refunded on a timely basis, the Ministry should follow up on missing information or, when necessary, verify information provided in returns on a timely basis.

Ministry Response

The Ministry has been following up on a monthly basis on the outstanding work items. Steps will be taken to ensure more timely follow-up on information missing from taxpayers' returns, with enhanced tracking and recording of staff efforts in this regard. In addition, we will continue to review and implement additional procedures as required to more effectively manage this process.

MINISTRY AUDIT ACTIVITIES REGARDING TAXPAYERS

The objectives of the Ministry's audit activities regarding taxpayers are:

- to ensure that the corporations selected for audit have declared and remitted the correct amount of tax; and
- through the broader taxpayer population's awareness of the Ministry's audit program, to encourage the broadest possible degree of voluntary compliance.

To achieve these objectives, the Ministry conducts three types of audits:

- *discretionary field audits*—This type of audit is generally limited to corporations reporting over $7 million in annual gross revenues. Discretionary field audits are conducted at the taxpayer's premises and may include a detailed examination of a corporation's underlying records. For 2000/01, discretionary field audits generated an additional $225 million in tax assessments.
- *discretionary desk audits*—This type of audit is generally limited to corporations reporting between $500,000 and $7 million in annual gross revenues. Discretionary desk audits are primarily conducted in two of the Ministry's regional tax offices and generally include a detailed review of the tax return. In many instances, additional information is requested from the taxpayer by telephone or through correspondence. For 2000/01, discretionary desk audits generated an additional $9 million in tax assessments.

- ***Selective default notices have and continue to be issued for higher-risk corporations tax returns that are overdue.***
- ***Charter cancellation will be enforced for non-compliant corporations.***

We will continue to assess whether additional staff and IT resources are required to adequately address the volume of accounts with outstanding tax returns or annual declarations due and to validate their exempt-from-filing status. This would also include reviewing the practice and criteria for selective sending of default notices.

TAX RETURN PROCESSING

The Ministry has an informal guideline in place that requires a submitted tax return to be processed and an assessment to be issued within three to five days of receipt of the return.

We noted that the vast majority of tax returns that are submitted to the Ministry include all of the required information. We found in our review of a sample of such returns that the returns were processed and the assessments were generally issued within three to five days of receipt of the return, as required by the Ministry's guideline.

However, filed tax returns cannot be completely processed in the following circumstances:

- The filed return either lacks required information, or some information provided appears to be questionable and therefore requires verification before the return can be completely processed.
- The taxpayer filing the return is in default of filing a previous year's return.

Returns that cannot be processed are referred to the appropriate unit for follow-up. However, in many cases there was no evidence that the Ministry did follow up on the missing information, and therefore these returns were often not processed on a timely basis. For example:

- As of December 2001, the Ministry held but could not process 8,000 filed returns because the taxpayers were in default of filing a previous year's return. Approximately 10% of these returns had been held for over a year. We were advised that the Ministry had not made any attempts since September 2001 to obtain the missing previous years' tax returns for approximately 6,500 of these returns.
- As of December 2001, the Ministry held approximately 19,000 returns that could not be processed because they lacked some of the required information or because information provided had to be verified. Many of these had been held for an extended period of time—in some cases for over a year and for as long as four years. We found in our review of a sample of these returns that in many cases it was not clear what if anything had been done by staff at the units to which the returns had been assigned to obtain the required information.

In August 2001, the Ministry assigned one person to follow up with the units to which the returns had been assigned.

Recommendation

To ensure that filed returns can be processed and that the correct amount of tax is collected or refunded on a timely basis, the Ministry should follow up on missing information or, when necessary, verify information provided in returns on a timely basis.

Ministry Response

The Ministry has been following up on a monthly basis on the outstanding work items. Steps will be taken to ensure more timely follow-up on information missing from taxpayers' returns, with enhanced tracking and recording of staff efforts in this regard. In addition, we will continue to review and implement additional procedures as required to more effectively manage this process.

MINISTRY AUDIT ACTIVITIES REGARDING TAXPAYERS

The objectives of the Ministry's audit activities regarding taxpayers are:

- to ensure that the corporations selected for audit have declared and remitted the correct amount of tax; and
- through the broader taxpayer population's awareness of the Ministry's audit program, to encourage the broadest possible degree of voluntary compliance.

To achieve these objectives, the Ministry conducts three types of audits:

- *discretionary field audits*—This type of audit is generally limited to corporations reporting over $7 million in annual gross revenues. Discretionary field audits are conducted at the taxpayer's premises and may include a detailed examination of a corporation's underlying records. For 2000/01, discretionary field audits generated an additional $225 million in tax assessments.
- *discretionary desk audits*—This type of audit is generally limited to corporations reporting between $500,000 and $7 million in annual gross revenues. Discretionary desk audits are primarily conducted in two of the Ministry's regional tax offices and generally include a detailed review of the tax return. In many instances, additional information is requested from the taxpayer by telephone or through correspondence. For 2000/01, discretionary desk audits generated an additional $9 million in tax assessments.

- *nominal desk audits*—This type of audit is a mandatory review of a corporation's returns that includes: reviews of requests for loss carry-backs (that is, requests to apply losses incurred to retroactively decrease the taxable income the corporation reported in any of the three prior years to allow the corporation to claim a refund of some prior years' tax payments); reviews of requests for refundable Ontario tax credits and amended returns; and the review of federal corporations tax assessments and reassessments for Ontario tax implications. For 2000/01, nominal audits resulted in $85 million in additional tax assessments and tax reductions totalling $131 million, most of which were a result of loss carry-backs.

Ontario corporations may also be subject to audit by the CCRA of the federal government. However, except for the sharing of federal corporations tax assessments and reassessments as noted in the bullet above, there have been only limited attempts to co-ordinate audit coverage between the two jurisdictions.

Audit Coverage

To meet its two objectives of ensuring that corporations selected for audit have declared and remitted the correct amount of tax and encouraging broad-based voluntary compliance, the Ministry has established audit coverage goals by type of audit, as shown in the following table.

Planned versus Actual Audit Coverage by Type of Audit, 2000/01

Type of Audit	# of Corporations Eligible for Audit	% of Planned Audits Completed
Discretionary field audit	17,600	94
Discretionary desk audit for corporations reporting $500,000 and over	79,300	53
Discretionary field audit and discretionary desk audit for corporations reporting less than $500,000	666,100	n/a*
Nominal desk audit	potentially all 763,000 active corporations	215

* No audits are planned for these corporations, and a minimal number were conducted based primarily on referrals from the audits.

Source of data: Ministry of Finance

As the table indicates, the Ministry completed 94% of the planned number of discretionary field audits of corporations with annual gross revenues of over $7 million. The largest of these corporations—those with annual gross revenues exceeding $100 million—have generally been audited on a three- to four-year cycle as planned. We also noted that the number of discretionary field audits completed has more than doubled since the time of our last audit in 1996, due in part to the doubling of the number of field auditors and increased audit coverage of smaller corporations with annual gross revenues of between $7 million and $25 million. The low coverage of these latter corporations was a concern in *our 1996 report.*

Although the Ministry conducted only about one half of the planned number of discretionary desk audits of corporations reporting annual gross revenues of $500,000 or more, the number of audits completed still represents a substantial improvement since the time of our last audit in 1996, when only about 200 such audits were completed. No specific number of audits was planned for that year, and the low coverage at that time was primarily due to the fact that most desk auditors were redeployed to the return-processing function at that time.

We also noted that corporations with annual gross revenues of less than $500,000, which represent about 87% of the total number of corporations on the tax roll, are not normally audited unless specific issues are identified with respect to a particular corporation. This is of particular concern because many of these corporations are owner-managed and therefore may have limited internal controls and financial expertise, which could make them susceptible to compliance deficiencies. In that regard, we noted that, in a study conducted by a professor at a Canadian university of both U.S. and Canadian empirical evidence regarding components of the tax gap, it was found that the percentage of unreported taxes as a function of total tax liability was highest for small corporations. Roughly one half of the amount in unreported taxes was attributable to unreported income and one half to overstated expenses and deductions.

We also noted that a significant proportion of CCRA audits are of smaller corporations, many with revenues of less than $300,000. We were advised that the Ministry in effect relies on the CCRA to audit these small corporations and has made a deliberate decision that the audit coverage of these corporations should be left to the CCRA. While this would appear to be a reasonable approach to the audit of small corporations, the Ministry did not obtain specific information about the CCRA small-business audit program on which to base such reliance. For example, it did not obtain and monitor information about the CCRA small-business audit such as audit coverage, audit selection criteria, the nature and extent of work performed, and the results obtained.

Recommendation

In order to meet its objectives of ensuring that corporations selected for audit declare and remit the correct amount of tax as well as encouraging broad-based voluntary compliance with the *Ontario Corporations Tax Act*, the Ministry should:

- **conduct the planned number of discretionary desk audits of corporations with annual gross revenues of between $500,000 and $7 million; and**

- *nominal desk audits*—This type of audit is a mandatory review of a corporation's returns that includes: reviews of requests for loss carry-backs (that is, requests to apply losses incurred to retroactively decrease the taxable income the corporation reported in any of the three prior years to allow the corporation to claim a refund of some prior years' tax payments); reviews of requests for refundable Ontario tax credits and amended returns; and the review of federal corporations tax assessments and reassessments for Ontario tax implications. For 2000/01, nominal audits resulted in $85 million in additional tax assessments and tax reductions totalling $131 million, most of which were a result of loss carry-backs.

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Recommendation

In order to meet its objectives of ensuring that corporations selected for audit declare and remit the correct amount of tax as well as encouraging broad-based voluntary compliance with the *Ontario Corporations Tax Act*, the Ministry should:

- **conduct the planned number of discretionary desk audits of corporations with annual gross revenues of between $500,000 and $7 million; and**

- **consider the advisability of auditing, based on assessed risks, more corporations with annual gross revenues of under $500,000.**

Alternatively, if the Ministry continues to rely on Canada Customs and Revenue Agency (CCRA) audits, the Ministry should obtain and monitor specific information about the CCRA small-business audit program so that it can assess whether the program is meeting its expectations and whether the Ministry's reliance on the CCRA audits is justified.

Ministry Response

The Ministry will set realistic targets for the number of discretionary desk audits to be undertaken. We will continue to collect, monitor, and analyze data on the actual number of completed audits against the budgeted figures on a monthly basis and take appropriate action to ensure the planned number of audits are completed.

The Ministry's reliance on CCRA audits of the smallest corporations on the tax roll is intended to achieve efficient use of ministry resources and minimize the compliance burden for these smaller corporations.

However, the Corporations Tax Branch will obtain additional information from the CCRA about its small business audit program to better assess the ongoing effectiveness of this approach and make such changes as are indicated by that review.

Discretionary Field and Desk Audits

AUDIT SELECTION

The process whereby individual corporations are selected for audit is a critical aspect of ensuring that the Ministry's audit function meets its dual objectives efficiently and effectively. Both to ensure that the Ministry obtains the correct amount of tax owing and to encourage broad-based voluntary compliance, it would be expected that the selection process would target those corporations with the highest assessed risks of significant non-compliance and that the selection process would target a sufficiently diverse range of corporations.

We understand that prior to the implementation of ITAS in 1995, the Ministry used to have a system in place that automatically ranked all processed returns using a risk-based point system and made selections from the ranked returns. Such a system is no longer in use. Instead, senior audit managers in each of the four regional offices and in the Corporations Tax Branch randomly select groups of 20 to 50 corporations from a listing of the portion of the tax roll assigned to them. They then conduct a cursory review of the tax returns of each of these corporations and select on the basis of their own judgment 10 to 20 of them for a discretionary field audit.

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A similar process is followed for selecting corporations for discretionary desk audit, although the initial random selection is made from a listing of corporations that meet certain criteria (for example, corporations that have claimed eligible investments for capital tax purposes or corporations that are associated with other corporations).

Our concerns with respect to the current selection process are as follows:

- Because the initial selection of 20 to 50 corporations is random, there is no assurance that:
  - those corporations with the highest risks of non-compliance are included in the initial selection and therefore will be considered for selection for audit; and
  - a sufficiently diverse range of corporations, particularly in terms of type of industry and geographic location, is selected to satisfy the ministry objective of encouraging broad-based voluntary compliance (for example, we were advised that some managers limit the number of corporations they select for field audit that have head offices located a long distance from the regional office and thereby minimize travel time and costs).
- The subsequent review of a corporation's tax return is not documented. Also, specific reasons for ultimately selecting a particular corporation for audit are not given, and therefore the basis for selection cannot be determined. Rather, only a general reason for the corporation's referral is provided, such as "provincial allocations," "capital tax," or "general review."
- Some of the senior audit managers we talked to readily acknowledged that, despite their best efforts, many of the selections of corporations they made would not result in a significant reassessment, while, as already mentioned, other corporations with high risks of non-compliance are not necessarily identified. We found that almost one-half of all audits completed during 2000/01 resulted in nil or minimal reassessments of taxes owed.

We were advised that the Ministry was in the process of developing general guidelines for audit managers to consider during the initial file reviews as well as a checklist that would document their file review.

In contrast to the Ministry's informal audit selection process, we noted that, for medium- to large-sized corporations, the CCRA uses a detailed risk-assessment process to assess potential workload. This process includes the use of risk-assessment checklists specific to particular industries and consultations with industry specialists who advise on issues and emerging trends as they arise. This detailed risk assessment is also used to identify specific audit issues and continues throughout the progress of the audit to ensure that only material issues are pursued.

For smaller-sized corporations, the CCRA uses computerized information-matching procedures and applies qualitative and quantitative statistical analyses to identify and select for audit those corporations with a high probability of non-compliance.

We were advised that the Ministry's Tax Revenue Division initiated an Audit Selection Project in July of 2001 that deals with all taxpayer audit activities for all the different types of taxes collected by the Ministry. The objective of the project is to identify and document the current audit selection methods used by branches of the Ministry involved with tax collection and the Ministry's regional tax offices in order to identify best practices and assess the feasibility of centralizing the audit selection function.

Recommendation

To ensure that the Ministry's audit function meets the Ministry's compliance and tax collection objectives efficiently and effectively, the Ministry should ensure that:

- **its audit selection process assesses the risk of significant non-compliance for all corporations and selects those with the highest assessed risk of significant non-compliance; and**
- **it monitors the range of corporations selected for audit to ensure that it is sufficiently diverse in terms of industry type and location to encourage broad-based, voluntary compliance.**

Ministry Response

While the Ministry's current selection process incorporates consideration of risk of non-compliance, we will further investigate the use of a more formalized risk-based approach to further enhance the selection process for both field and desk audits.

The Ministry is also in the process of establishing a new Audit Control and Analysis Unit in the Corporations Tax Branch that will maintain and analyze a database of all assigned and completed audits. The unit will ensure that the range of corporations selected for audit is sufficiently diverse in terms of industry and location.

AUDIT WORK COMPLETED

For auditors conducting discretionary field and desk audits, the Ministry provides an audit manual containing guidelines for audit performance standards that "outline best practices and procedures to assist and direct auditors in fulfilling the requirements of the job." As the manual states, "the guidelines are described in a less structured way so as to provide for individual creativity, flexibility, and use of judgment within the requirements of the position." For example, with respect to audit program preparation, the manual states that the nature and extent of the program to be developed depends on the particular

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As a result, in practice, individual auditors have considerable discretion with respect to how the requirements of the guidelines are fulfilled.

We found in our review of a sample of both field and desk audit files completed during the past two years that all proposed audit adjustments arising from areas audited and resultant reassessments issued were correctly determined and supported by the work performed. However, we also noted a number of concerns that ultimately brought into question whether or not all areas where audit work could be justified had been audited and consequently whether or not all taxes properly owing had been assessed and paid. The concerns noted included the following:

- In most instances, we found no evidence that the auditor had assessed all of the areas of potential risk and identified and prioritized the audit work necessary to mitigate the risks. In addition, some significant areas of risk such as transfer pricing or related party transactions were not identified and pursued, since it is the Ministry's view that it is not in a position to do so for several important reasons. For example, the Ministry assumes that it does not have the necessary authority to assess transfer pricing issues because it does not have access to the competent authority process that is only available at the federal and international levels. The Ministry also noted that it cannot possibly dedicate the resources needed to adequately address complex international tax issues. We were advised that, instead, the Ministry relies on the CCRA with respect to the audit of transfer pricing and related party transactions for Ontario-based corporations. However, the Ministry lacked the information about CCRA audits necessary to provide assurance that such reliance was justified.
- Audit file documentation was generally in need of improvement. Most files reviewed did not contain audit programs detailing the nature and extent of the work planned and performed. In approximately one-third of the files we reviewed, we identified at least one issue that should have been pursued but was not, and the reason for not doing so was not documented.
- In most cases, we found little evidence of managerial input during the audit planning stage. Similarly, with respect to the work performed, except for sign-offs on the front of the file, there was often no other evidence of detailed managerial review and approval, such as review notes.

We also noted that, to ensure consistent application of its policies and procedures, the Ministry formed a Quality Review Unit in 1999/2000 to review completed desk and field audit files at all regional tax offices and at the Branch. In the 2000/01 fiscal year, the unit conducted reviews of field audit files at two regional tax offices. The results of those reviews identified similar concerns to ours with respect to audit planning, file documentation, and managerial review.

Recommendation

To ensure that all necessary audit work is completed satisfactorily and that the work performed clearly establishes whether or not taxes owed have been correctly declared, the Ministry should ensure that:

- **auditors identify and assess all potential risks of non-compliance by the corporation selected for audit and identify and prioritize all the audit work that needs to be performed;**
- **where reliance is to be placed on the work performed by the Canada Customs and Revenue Agency (CCRA), it obtains the necessary information about the CCRA audit activities to provide assurance that such reliance is justified;**
- **auditors use detailed audit programs that clearly indicate the nature and extent of audit work proposed and actually performed; and**
- **managers adequately document their input at the planning stage of an audit as well as their review and approval of the work performed.**

Ministry Response

The Ministry will take appropriate measures to ensure that its current standards are being met consistently in all of the Ministry's office locations where corporations tax audits are undertaken. The Ministry will also review its current field and desk audit standards and make further enhancements to these standards where appropriate.

The Ministry will also examine those areas where reliance is placed on the work of the CCRA, such as international transfer pricing issues, and will consider if there is an ongoing need to obtain more information about the CCRA's audit programs in those areas.

Nominal Desk Audits

Nominal desk audits generally consist of a review of returns that have been amended or contain requests for loss carry-backs or the review of a corporation's federal assessment or reassessment data to determine their effects on provincial tax owed.

Since April 1, 2001, the Ministry of Finance has been receiving daily electronic transmissions of data regarding federal corporations tax assessments and reassessments issued by the CCRA. A provincial corporations tax reassessment, if warranted, must be issued within 365 days of receipt of the federal assessment or reassessment data if a provincial return has been filed for that year and if the return is otherwise already statute barred as defined above in our section on "Tax Return Filing."

However, we understand that there are four circumstances under which a review of federal assessment or reassessment data is not automatically assigned and therefore cannot proceed, as follows:

- The corporation in question does not have a CCRA account number in ITAS.
- The corporation's status in ITAS is inactive.
- The corporation's federal and provincial taxation periods as filed do not coincide.
- The corporation has filed a provincial EFF declaration or is in default of filing the required provincial tax return.

We found that, when any of these circumstances arose, the Ministry was often not timely in investigating the situation and determining whether the appropriate amount of provincial corporations tax had been declared. The result of not reviewing the federal assessment and reassessment data in these circumstances for their effects on provincial tax owed can be that provincial tax is not collected on a timely basis and, as in the case of the 22,000 federal assessments or reassessments discussed below that have not yet been reviewed, that the assessments and reassessments become statute barred and provincial tax revenue is lost. For example, for the period of April 2001 to February 2002, we found the following:

- The Ministry received over 5,300 federal corporations tax assessments or reassessments, representing $622 million in federal taxable income, for corporations that had filed a provincial EFF declaration or were in default of filing the required provincial tax return. We were subsequently advised that, between the time that we brought these items to the Ministry's attention in February 2002 and June 2002, the Ministry resolved approximately 1,300, or about one-quarter, of these items but assessed no additional provincial tax.
- The Ministry received 41,000 federal assessments or reassessments for corporations that did not have a CCRA account number in ITAS. We noted that, between October 2001 and the end of our audit in June 2002, the Ministry reviewed approximately 17,000 of these assessments or reassessments and identified approximately 600 for potential audit. Of these, 70—with potential recoveries of $870,000—have been assigned for audit, but the audits have not yet been completed. Unless the remaining 24,000 federal assessments or reassessments are soon reviewed and, where warranted, assigned for audit, they could become statute barred.

Recommendation

To ensure that provincial corporations tax assessments and reassessments resulting from federal assessments or reassessments are issued on a timely basis and do not become statute barred, the Ministry should ensure that it reviews all federal corporations tax assessments and reassessments and completes any required audit work to determine provincial corporations tax applicability on a timely basis.

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Ministry Response

Steps are being undertaken to accelerate the review of federal corporations tax assessments and reassessments. Staff recruitment has been initiated in the Desk Audit Section of the Corporations Tax Branch to bring staff back up to the approved complement level. In addition, desk audit staff in the two regional tax offices are assisting with the processing of these adjustment files.

TRAINING NEEDS

In order to keep abreast of the numerous legislative tax changes that occur and be able to adequately audit and assess the reliability of information provided by corporations' increasingly complex accounting systems during tax audits, ministry audit staff need to be properly trained. Training of staff needs to be ministry-wide so that audits are conducted professionally and consistently across the province.

Over the past five years, a great number of auditors were hired for both discretionary desk and field audits. Since the desk audit positions in particular are considered to be entry-level, some of the individuals hired for these positions did not have extensive audit or taxation backgrounds. The Ministry's initial training of auditors consisted of an introductory course that covered the basic requirements of the audit function, the workings of ITAS, and general legislative requirements.

As for ongoing ministry-wide training, we were advised that, in the two-year period of 2000 and 2001, only a total of three days of ministry-wide training was provided. The training covered areas such as legislative changes and the impact of results of tax appeals and taxpayers' objections. Training was not provided in advanced audit and technical legislative requirements.

We found in our visits to several regional tax offices that each office also provides its own on-the-job or informal internal training on issues specific to the office. However, information available was not sufficient to determine the nature and extent of such training provided or to assess its adequacy and effectiveness.

In addition, the field auditors we interviewed informed us that the training received overall was insufficient to provide them with the detailed technical knowledge they would need to conduct comprehensive tax audits specific to particular types of industries. Inadequate training may be one of the reasons why some audit issues were not examined in the files that we reviewed.

In addition to being advised of auditors' concerns regarding the extent of ministry training, we were also advised by many auditors that the Ministry often has not funded training opportunities pursued by individual auditors to increase their tax knowledge base. Such opportunities include membership in the Canadian Tax Foundation and participation in the Canadian Institute of Chartered Accountants' in-depth tax course.

Recommendation

To help enable field and desk auditors to effectively and consistently address corporations tax issues and thereby improve tax collection efforts, the Ministry should:

- **ensure that sufficient training that adequately addresses both technically complex issues and industry-specific high-risk areas is provided for both field and desk auditors; and**
- **consider funding, on an individual basis, training initiatives that would increase the individual auditor's knowledge base.**

Ministry Response

The Ministry recognizes the importance of staff training and has recently adopted enhanced training as a strategic priority. To this end, job-specific technical training plans were developed for all audit positions in the division.

A training unit was established earlier this year in the Corporations Tax Branch to enhance current training materials and develop additional technical training materials for both audit and other staff dealing with corporations tax issues in the Branch and in the regional tax offices.

The Ministry will review its current provision of funding for training on an individual basis for auditors and other staff with a view to ensuring training opportunities where they are most required on a priority basis.

TAX ADVISORY SUPPORT

Requests to the Tax Advisory Unit

One of the key responsibilities of the Tax Advisory Unit is to recommend necessary changes to the existing legislation and prepare and communicate, for all units within the Branch, legislative interpretations and rulings for taxpayers. The majority of the interpretation requests come from the field audit area. The requests must be formally directed to the Tax Advisory Unit on a Tax Advisory Enquiry Report form. Upon receipt of these requests, the Tax Advisory Unit records the date the request was received, the nature of the request, the staff assigned to complete the request, and the status of the request. We understand that, during the 2001/02 fiscal year, the Tax Advisory Unit provided 54 advance rulings and 64 written interpretations.

Although, according to the Tax Advisory Unit's senior management, there is no requirement as to how quickly these requests must be completed and returned to the party requesting the information, management believes that it is reasonable for those making a request to expect a resolution within 90 days of the Advisory Unit receiving the request. However,

Ministry Response

Steps are being undertaken to accelerate the review of federal corporations tax assessments and reassessments. Staff recruitment has been initiated in the Desk Audit Section of the Corporations Tax Branch to bring staff back up to the approved complement level. In addition, desk audit staff in the two regional tax offices are assisting with the processing of these adjustment files.

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Although, according to the Tax Advisory Unit's senior management, there is no requirement as to how quickly these requests must be completed and returned to the party requesting the information, management believes that it is reasonable for those making a request to expect a resolution within 90 days of the Advisory Unit receiving the request. However, management staff indicated that, for the past year and a half, most requests have taken from six months to a year to complete.

Our review of the outstanding request log as at March 2002 showed that 25 internal requests remained outstanding, 18 of which were older than 90 days and some of which had been outstanding since November 1998. Management staff at the Tax Advisory Unit informed us that they were aware of the long outstanding requests but were unable to address them due in part to staff vacancies in the area. Some positions had been vacant since late 2000. At the time of our audit, the Tax Advisory Unit was in the process of hiring for these positions.

Communicating the Decisions of the Tax Appeals Branch

Significant decisions made by the Tax Appeals Branch that, for example, result in audit assessment reversals, as well as court decisions regarding audit assessments, are sent to the Tax Advisory Unit. In order for the decisions to assist staff in future audit work and assessments, where warranted, they are to be summarized and communicated to all regional tax offices through channels such as interpretation or information bulletins or through changes to existing policies.

Management staff at the Tax Advisory Unit informed us that they have not formally reviewed and, where warranted, summarized 329 tax appeals decisions made between July 2000 and March 2002. The delay was again due to staff vacancies. At the time of our audit, management staff were in the process of hiring one person to perform the function of reviewing and summarizing the decisions. In the meantime, auditors would not be informed of tax appeals decisions that could impact on their audit approach and their ability to ensure that assessment and appeals decisions are consistently considered in the work the auditors undertake.

Recommendation

To provide good taxpayer service and effectively utilize audit resources, the Tax Advisory Unit of the Corporations Tax Branch of the Ministry should:

- **establish a standard completion time for formal requests for tax advisory services;**
- **address all formal legislative and interpretational requests from regional tax offices within the standard completion time established; and**
- **summarize and, where warranted, communicate all tax appeals decisions to all relevant parties in the appropriate manner and on a timely basis.**

Ministry Response

In November 2001, the Tax Advisory Unit of the Corporations Tax Branch was restructured to improve and enhance the range of services provided. Staffing levels are being increased. The Ministry is also currently consulting with its regional tax offices to develop a reasonable response time for standard tax advisory requests.

The Tax Advisory Unit will expedite the summary and review of significant tax appeals decisions. Corporations tax staff were advised and will be advised on a more timely basis of decisions and tax cases that significantly impact on the Ministry's assessing policies and practices in order to assure timely processing.

THE TAX GAP

As noted previously, one of the Ministry's key objectives is to encourage the highest possible degree of voluntary compliance from taxpayers and thereby reduce the tax gap (the difference between the amount of all taxes actually collected and the amount that should be collected). To know whether this objective is being achieved, the extent of the tax gap must be determined and monitored over a period of time.

The greatest contributor to the tax gap is what is commonly called the "underground economy." The underground economy can be understood to consist of those economic activities that are hidden from public authorities to avoid taxation. While we appreciate that attempts to estimate the size of the underground economy are fraught with difficulties due to differing definitions and assumptions, the latest evidence points to an increasing amount of underground economic activity that is resulting in an increasing tax gap. A research study published in 2002 by the Canadian Tax Foundation found that the underground economy in Canada grew steadily between 1976 and 1995 from about 3.5% to 15.7% of the gross domestic product (GDP). The study estimates that those percentages translate to $2 billion in missing tax revenue in 1976 and all of $44 billion in missing revenue in 1995. The underground economy has not only increased in absolute value, but it has grown dramatically relative to the regular economy. The study estimated the value of the underground economy in 2002 at close to 20% of GDP. In 2001, Ontario's GDP represented about 40% of the total Canadian GDP.

In the absence of any ministry assessment and evaluation of the extent to which the tax gap affects provincial corporations tax revenue, it is our view that the tax gap with respect to provincial corporations tax may well be substantial.

Concerns with the growth of the underground economy have prompted the CCRA to launch a number of initiatives. For example, a recent initiative introduced contract reporting, which requires general contractors to report to the CCRA both whom they hired and the amount paid them. In addition, an initiative called the Community Awareness management staff indicated that, for the past year and a half, most requests have taken from six months to a year to complete.

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The Ministry's Macroeconomic Analysis and Policy Branch is responsible for developing revenue forecasts and estimating potential tax loss attributable to tax evasion. Our discussion with staff from that branch indicated that no studies on the underground economy as it relates to corporations income taxes had been conducted in recent years. However, we believe it is critical for the Ministry to identify any areas of the economy subject to high risk of tax evasion and thus contributing to the tax gap in order to effectively target its resources to minimize corporations tax loss.

Since the Ministry has not assessed the nature and causes of the tax gap, it cannot effectively target its efforts to address the tax gap and assess the effect of its efforts in reducing the tax gap.

Recommendation

To help ensure the achievement of its objective of encouraging the highest possible degree of voluntary compliance from taxpayers and thereby reducing the tax gap, the Ministry should conduct research into the areas contributing to the tax gap and direct the necessary resources to minimize the tax loss.

Ministry Response

The Ministry of Finance has an ongoing program of research related to the tax gap, and staff at the Ministry have contributed to national publications on this subject. Ministry staff closely monitor research undertaken in universities, institutes, and other government agencies in order to apply this information to Ontario's situation. The Ministry will increase its research on factors that could enhance voluntary compliance and address those factors as opportunities are identified.

Two key determinants of a tax gap—the impact of a changing rate of taxation and the level of enforcement activity in a jurisdiction—have been receiving concerted attention.

An additional 170 staff have substantially increased audit coverage, as noted elsewhere in the Provincial Auditor's report. In addition, Ontario's corporate tax rates have fallen dramatically since 1995—the general rate of tax by nearly 20% and the small business tax rate by over 36%.

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3.03–Community Mental Health

BACKGROUND

In 1976, the Ministry of Health and Long-Term Care began funding community-based mental health services to address a growing need for community-based services. Transfer payments are provided to community agencies or general hospitals through the Ministry's Integrated Health Care Program to deliver community-based mental health programs and to help cover the costs for sessional fees, homes for special care, and other housing with supports. The types of programs and services funded include assertive community treatment teams, housing, social rehabilitation, vocational assistance, case management, crisis response, day treatment programs, court diversion, clinics, self-help and prevention. These programs are primarily designed to meet the needs of the seriously mentally ill who are 16 years and over.

The *Ministry of Health Act*, the *Mental Health Act*, the *Substitute Decisions Act*, the *Health Care Consent Act* and the *Homes for Special Care Act* all govern certain aspects of the community mental health programs funded by the Ministry. In 1999, the Ministry released *Making It Happen*, outlining the Ministry's three-year strategy for restructuring the mental health system "to support much needed changes in the way services are delivered."

According to the Ministry, "one of the goals of mental health reform is to create local systems of care that will ensure access to a broad range of community-based services and support, and provide choices for people with mental illness. These local systems of care will enable them to set and realize their personal goals, and acquire the skills and resources needed to achieve independence and well being."

Making It Happen (1999) identifies people with serious mental illness as the priority for community mental health services. According to the Ministry, "the critical dimension is the extent of disability and serious risk of harm to themselves or others related to a diagnosable disorder." At the time of our audit, the Ministry estimated that approximately 2.5% of the population of Ontario, or 300,000 people, are seriously mentally ill.

In December 2000, "Brian's Law" amended the *Mental Health Act* and the *Health Care Consent Act*. The amendments expand the assessment and committal criteria to include chronically mentally ill persons and allow their families and health professionals to intervene at an earlier stage in the committal process.

During the 2001/02 fiscal year, the Ministry provided approximately $390 million in transfer payments for community-based mental health services.

AUDIT OBJECTIVES AND SCOPE

The objectives of our audit of community mental health were to assess whether:

- the Ministry had defined its expectations for community mental health and whether adequate procedures were in place to ensure services funded by the Ministry were meeting those expectations; and
- resources were acquired and managed with due regard for economy and efficiency.

In conducting our audit, we reviewed relevant files and administrative policies and procedures and interviewed staff at the Ministry's head office and three of its seven regional offices. We also visited a number of community mental health agencies to gain a better understanding of the services being provided and relevant procedures and to corroborate information provided to us by the Ministry.

Our audit was conducted in accordance with the standards for assurance engagements, encompassing value for money and compliance, established by the Canadian Institute of Chartered Accountants and accordingly included such tests and other procedures as we considered necessary in the circumstances. Prior to the commencement of our audit, we identified the audit criteria that would be used to address our audit objectives. These criteria were discussed with and agreed to by senior ministry management and relate to systems, policies, and procedures that the Ministry should have in place.

Our audit was substantially completed in April 2002. We did not rely on the Ministry's internal audit branch to reduce the extent of our audit work because they had not recently conducted any audit work on community mental health services that impacted on our audit.

OVERALL AUDIT CONCLUSIONS

Since 1988, the Ministry has conducted numerous studies on the future direction of Ontario's mental health system. Since 1993, the primary focus has been on the needs of people with serious mental illnesses. The Ministry's strategy document, *Making It Happen* (1999), outlines the characteristics of the reformed mental health system, implementation priorities, core service requirements and definitions, as well as functional descriptions of specific program models.

Many of the fundamental issues and concerns identified in our audits over the last 15 years have not been comprehensively addressed. In particular, we found that, except in the case of assertive community treatment teams, the Ministry still had not clearly defined its expectations for community mental health and did not have sufficient information to enable it to assess whether mentally ill people were being adequately cared for and whether funding provided for community-based mental health services by the Ministry was being prudently spent. Specifically, we noted that:

- The Ministry generally did not have standards and performance measures for community mental health and had only limited information about whether community mental health resources were being utilized efficiently and effectively.
- The Ministry did not have adequate information on the number of people receiving or waiting for community mental health services or on the waiting times to access services, which limited its ability to assess whether sufficient and appropriate services were available to meet the needs of seriously mentally ill individuals.
- In many areas of the province there is still no comprehensive source of information about available mental health services or how to access those services. In addition, there is minimal co-ordination among agencies providing services.
- The Ministry had not determined the number or type of housing spaces required to meet the needs of seriously mentally ill individuals or whether existing housing was meeting the needs of the individuals housed.
- The Ministry had not determined the number and locations of assertive community treatment teams needed to provide adequate support services to individuals with serious and persistent mental health problems and the level of less intensive services needed to meet the needs of individuals who no longer require assertive community treatment.

With respect to acquiring and managing resources with due regard for economy and efficiency, the Ministry had not given sufficient consideration to the funding of community mental health agencies based on an assessment of the number of patients requiring services and the complexity of patients' needs. In particular:

- Annual per capita funding in the seven regions of the province ranged from approximately $11 to $60; however, the Ministry had not analyzed whether the significant variation in per capita funding is resulting in different levels of service for individuals with similar needs depending on where in Ontario they live.
- Since 1992, there have been no increases in base funding provided to community mental health agencies for programs that were operating at that time. One district health council noted that this has forced community mental health agencies "to reduce services to the seriously mentally ill in order to stay within existing base budgets."

We also concluded that, to provide better accountability to the public and the Legislature, the Ministry needed to develop results-oriented performance measures and periodically

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report publicly on the performance of community-based mental health services in meeting the needs of the mentally ill.

DETAILED AUDIT OBSERVATIONS

MENTAL HEALTH REFORM

Mental illness can result in serious disability, hospitalization, suicide, and risks to public safety. A 1996 study projected that, in developed countries of the world, the burden of mental illness would grow and that depressive illness would become the leading cause of disability.

Over the past 14 years, there have been a number of ministry policy and implementation strategies to reform Ontario's mental health system, including *Building Community Support for People: A Plan for Mental Health in Ontario* in 1988, *Putting People First* in 1993, and *Making It Happen* in 1999.

In *Putting People First* (1993), the Ministry announced a 10-year strategy, commencing in 1993, for reforming the province's mental health system, noting that if community services were effective in providing care in the community, the hospitalization rate for people with mental illnesses should drop. Along with the strategy, the Ministry established measurable targets and timelines for the number of beds and for funding. The target for number of beds was subsequently modified based on recommendations from the Health Services Restructuring Commission in a 1997 discussion paper and in its 1999 *Advice to the Minister of Health on Building a Community Mental Health System in Ontario.*

Status of Community Mental Health Targets for Spending and Number of Beds, 1997–2003

Target Area	Target for 2003	Status as of March 31, 2002	Status as of March 31, 1997
Ratio of community to institutional spending	60:40	46:54	32:68
Number of hospital psychiatric beds per 100,000 people	35 (ultimate target: 30)	41	43

Source of data: Ministry of Health and Long-Term Care

The Commission noted that "the proposed hospital bed targets are achievable once the appropriate community services and supports are in place to reduce reliance on institutional care (especially provincial psychiatric hospitals) and dramatically reduce the need for hospital-based treatment services." The Ministry informed us that it was still planning to report publicly on the performance of community-based mental health services in meeting the needs of the mentally ill.

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In *Making it Happen*, which is currently being used to provide implementation direction for mental health reform, the Ministry indicates that the key characteristics of a reformed mental health system include a continuum of care, in which clients receive services when and where they need them. Other characteristics are streamlined access to mental health services and the provision of services based on best practices.

According to the Ministry's implementation plan for *Making It Happen*, people with serious mental illnesses are the priority for mental health services. The implementation plan outlines the Ministry's "strategy to increase the capacity of the system for comprehensive and integrated treatment, rehabilitative and support services, while focusing on community alternatives wherever possible." In addition, the plan states that in the year 2002, the Ministry is to review and revise implementation strategies and program funding priorities as necessary. The Ministry advised us that the evaluation will begin during the 2002/03 fiscal year.

Commencing in May 1999, as recommended by the Health Services Restructuring Commission, the Ministry established nine regional Mental Health Implementation Task Forces. The task forces were appointed by the then Minister and include representatives from psychiatric hospitals, general hospitals, and community mental health agencies, as well as general members from communities across the province and consumer and family representatives. The task forces, which are expected to complete their work by December 2002, were asked to look at options to:

- provide a greater range of services in the community;
- improve access to mental health services;
- tailor services to those with mental health needs;
- link services so those with mental illness can move seamlessly within the system; and
- ensure services are based on best practices.

In addition, in January 2001, a provincial forum comprised of the nine task force chairs was established to identify provincial issues that need to be addressed to successfully implement mental health reform across Ontario. The provincial forum reports to the Minister.

Our concern is that a number of the issues currently being addressed, such as the lack of community-based support services, were raised by us 15 years ago in our *1987 Annual Report* and that the mental health best practices that have been identified in the various policy and implementation strategies are still to be comprehensively implemented.

Recommendation

The Ministry should ensure that the necessary reforms, including best practices identified in the studies, are implemented as soon as possible in order to meet the needs of the seriously mentally ill.

Ministry Response

The Ontario government is committed to building an integrated system of mental health services based on best practices to meet the needs of persons with serious mental illnesses. Since 1995, the government has invested more than $380 million in mental health care services.

In order to undertake the government's implementation strategy for mental health reform, as outlined in* Making It Happen, *the government established nine regional Mental Health Implementation Task Forces as well as a Provincial Forum of Chairs, whose reports are expected to be completed in December 2002. The Task Forces have been asked to develop regional implementation plans to operationalize a restructured local and regional mental health system. The Provincial Forum is also preparing provincial level recommendations.

ACCOUNTABILITY

Accountability Framework

According to the Management Board of Cabinet Directive on Transfer Payment Accountability, transfer payments should be managed wisely and prudently to achieve value for money. The directive lists accountability elements that should be in place, including: defined expectations that focus on measurable results; signed agreements that state recipient reporting requirements and bind recipients to achieve specific, measurable results; and ministry monitoring and corrective action in cases of recipient non-compliance with the agreement.

In our *1997 Annual Report*, we noted that the Ministry had recognized the need to strengthen its accountability relationship with community mental health agencies and had drafted a service agreement that required agencies to use ministry funding in accordance with approved operating plans and budgets. At that time, we were advised that these agreements were being put in place. During our current audit, we found that agreements with some assertive community treatment teams (discussed later in this report) had been signed, but the Ministry generally still did not have agreements signed with community mental health agencies. At the completion of our audit, transfer-payment agreements and operating manuals were being distributed to all mental health and addiction agencies. The Ministry indicated that it expects agreements to be finalized in fall 2002 and believes that this will go a long way in strengthening the accountability framework.

In *Making It Happen*, the Ministry states that it is "committed to the principle of greater accountability in the reformed mental health system. The mental health system will be measured against the accountability framework that is to be developed." We were advised that developing a mental health accountability framework is one of the priority areas of the Mental Health Implementation Task Forces and that a Mental Health Accountability Framework Reference Group, comprising ministry and external representatives, was established in the latter part of the 2001/02 fiscal year to provide advice to the Ministry on developing such a framework. Ministry staff also indicated that they were proceeding with the development of a provincial accountability framework for mental health services. In that regard, the Reference Group had prepared a summary of accountability approaches and strategies in other jurisdictions.

Recommendation

To better hold community mental health agencies accountable for the services provided and for the prudent management of the funds they receive, the Ministry should ensure that all basic elements of the Management Board of Cabinet Directive on Transfer Payment Accountability are addressed, including signed agreements that require recipients to achieve specific, measurable results.

Ministry Response

The Ministry has now developed a mental health accountability strategy that consists of four elements:

- ***an accountability framework that outlines goals, purposes, performance domains, and indicators: in addition, performance measures based on the domains and indicators, as well as data collection tools, are being developed by the Ministry's Health Care Programs Division;***
- ***legal agreements between the Ministry and transfer-payment recipient agencies;***
- ***a revised operating manual for mental health and addiction agencies; and***
- ***hospital accountability mechanisms.***

A service agreement has now been developed and sent to all community mental health agencies for signature. An initial program manual has also been issued. A working group is in place to develop the basic framework for specifying program expectations (that is, service units, client groups, and the key indicators to measure performance). This will evolve into schedules for the service agreements.

Recommendation

The Ministry should ensure that the necessary reforms, including best practices identified in the studies, are implemented as soon as possible in order to meet the needs of the seriously mentally ill.

Ministry Response

The Ontario government is committed to building an integrated system of mental health services based on best practices to meet the needs of persons with serious mental illnesses. Since 1995, the government has invested more than $380 million in mental health care services.

In order to undertake the government's implementation strategy for mental health reform, as outlined in* Making It Happen, *the government established nine regional Mental Health Implementation Task Forces as well as a Provincial Forum of Chairs, whose reports are expected to be completed in December 2002. The Task Forces have been asked to develop regional implementation plans to operationalize a restructured local and regional mental health system. The Provincial Forum is also preparing provincial level recommendations.

ACCOUNTABILITY

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Performance Measurement and Reporting

Effective accountability requires that program clients, their families, the Legislature, and the general public be provided with timely, reliable information about the performance of community mental health programs. Performance information is needed to enable the Ministry to evaluate the impact of mental health reform, including the impact of changes in the structure and the organization of services. For example, performance information is needed to measure the extent to which mental health reform is improving the quality of life of community mental health clients and their families.

In our *1997 Annual Report*, we recommended that the Ministry establish performance benchmarks and outcome measures and monitor community mental health programs against them. This would help ensure that agreed-upon community-based services are being provided and that funding is reasonable and consistent. At that time, the Ministry indicated that mental health benchmarks, targets, and outcome measures were being developed and that the efficiency and effectiveness of service delivery would be the focus of further outcome measures that would span both the hospital and community sectors.

During our current audit, we found that, overall, the Ministry had limited information about whether community mental health resources were used efficiently and effectively and that the Ministry was still identifying performance indicators for mental health services. In addition, while performance measures for employment services and supports had been developed, they had not yet been fully implemented. As the Ministry noted in the terms of reference of the Mental Health Accountability Reference Group, various provincial data collection tools, evaluation and monitoring mechanisms, and performance indicators have been developed over the past several years. However, these are not being used consistently.

Many other jurisdictions are developing and implementing performance measures for mental health that address performance at system-wide, program, and client levels. Key measures assess outcomes such as improvement in clients' mental health status, clients' ability to function in society, and client satisfaction. Although outcomes may be affected by factors unrelated to an agency's services—for example, the severity of an individual's mental illness—outcome information can assist in improving program quality and the Ministry's ability to assess the cost effectiveness of programs.

We found that many jurisdictions in North America were already reporting publicly on the performance and outcomes of their community mental health systems. However, Ontario had not issued public performance reports for community mental health that included information on the Ministry's progress in meeting mental health reform targets.

Recommendation

To help achieve ongoing improvements in providing community mental health services, the Ministry should:

- **develop and implement appropriate performance measures that objectively measure the success of agencies in meeting the needs of the seriously mentally ill;**
- **regularly report publicly on performance, including reporting on the impact of mental health reform; and**
- **take corrective action where required.**

Ministry Response

The Integrated Health and Planning Division has now developed an accountability framework identifying key domains, and the Mental Health Accountability Reference Group will seek to identify indicators on which to report performance in those domains. The service agreement specifies reporting types and the timetable. Regional offices use a risk-based monitoring process to determine when and what corrective action is required.

Resources for hardware and software will be required for the planned information-system design.

Monitoring Community Mental Health Agencies

At the time of our current audit, there were approximately 370 community mental health agencies receiving ministry funding to provide mental health services and supports such as assertive community treatment, case management, crisis intervention, housing, consumer and family self-help, and vocational rehabilitation.

Community mental health agencies must submit annual operating plans, including program budgets, to their regional ministry offices and local district health councils. District health councils review the operating plans and provide comments to the Ministry if there are significant program changes. The review and approval of operating plans by the Ministry is to be completed by early June of each year, taking into consideration any comments from district health councils.

For the 2001/02 fiscal year, each community mental health agency's annual operating plan was required to include: a proposed budget with explanations of any significant changes from the prior year; program and client goals and objectives for the upcoming year; and a report on the agency's achievement of the goals and objectives established in the prior year's operating plan.

We found that the operating plans for the 2001/02 fiscal year were generally received and approved by the Ministry within a reasonable time frame. All three regions we visited used checklists to ensure that information was submitted in accordance with ministry requirements. However, since the process was done manually rather than electronically, no aggregate data on the agencies was available.

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We reviewed a sample of 2001/02 operating plans at the three regions we visited and noted that they generally included a budget with explanations of any significant changes from the prior year, client goals and objectives for the upcoming year, and the agency's achievement of goals and objectives related to the prior year's operating plan. However, we also noted that, while agencies are required to report in their annual operating plans the number of individuals served by each type of service, they are not required to report the total number of individuals served or the number of seriously mentally ill individuals served. Without such information, the Ministry is hampered in its ability to make planning and funding decisions.

Prior to 1996 the Ministry conducted detailed reviews of community mental health agencies, in which it assessed basic aspects of program organization and delivery, including whether appropriate individuals received services and whether treatment goals for individuals were established and monitored. Since 1996, the Ministry has monitored agencies primarily through reviews of operating plans, informal visits to agencies, and telephone contacts. However, this process does not provide the information on the individuals served nor the assurance of the quality of the services provided that would be obtained from a detailed review.

Program standards establish performance expectations. For example, quality improvement standards would enable the Ministry to evaluate an agency's procedures for assessing and improving the quality of services it provides. We noted that, except for assertive community treatment teams (which are covered later in this report), the Ministry had not established standards for community mental health programs. Other jurisdictions in North America have established standards for community mental health programs such as supported housing and employment services.

A properly designed information system that includes the data required for appropriate performance measures is essential for the Ministry to identify agencies that require further review and would enable the Ministry to utilize its resources more efficiently.

Recommendation

To help ensure that resources are utilized efficiently and are achieving their intended results, the Ministry should:

- **ensure that it has adequate information to make planning and funding decisions; and**
- **require that agencies submit information on the number of seriously mentally ill individuals who received their services.**

To help ensure that community mental health agencies provide high quality programs, the Ministry should:

- **establish standards against which programs can be evaluated; and**
- **implement agency reviews focusing on those agencies identified as high risk.**

Ministry Response

Conversion of the existing Community Mental Health (CMH) Budget & Inventory System to a CMH MIS (Management Information System) chart of accounts in the Ontario Hospital Reporting System will provide the Ministry with more details for in-year reporting using standard financial and statistical accounts and consistent definitions of mental health services. This will allow the comparison of expenditures across and within the various mental health sectors.

Data collected by the Common Data Set—Mental Health, which employs the same set of mental health services that are defined in the CMH MIS chart of accounts, will capture additional clinical details to allow the Ministry to have information regarding services provided by the community mental health agencies to seriously mentally ill individuals.

The Mental Health Accountability Framework includes performance domains and indicators, which are based on the goals and principles set out in **Making It Happen.** ***Performance measures for each indicator are under development. Standards and benchmarks, based on best practices, are also under development.***

Ministry regional offices will continue to undertake or contract agency reviews in response to program or financial concerns.

ACCESS TO COMMUNITY MENTAL HEALTH SERVICES

In *Making It Happen*, the Ministry states that "access to mental health services in Ontario can be confusing and time-consuming for clients and their families/key supports." In that regard, we noted that in many areas of the province there is no central source of information about available mental health services or how to access these services. According to *Making It Happen*, in some areas of the province there is minimal co-ordination among agencies that provide similar or identical services, and individuals "are often unclear as to which services are suitable to their needs and how to access them. As a result, they may seek several services at once (undergoing separate assessments for each service) and they may be on several waiting lists at the same time."

To reduce duplication, the Ministry funded a project to co-ordinate access to housing in Toronto. In March 2002, the "Report on the Planning and Development of a Coordinated Access System for Mental Health Supportive Housing in Toronto" was submitted to the Ministry, proposing a single housing application form. At the time of our audit, a budget detailing the cost of implementing this system was still to be prepared by the agencies involved with the project. The Ministry is also funding a project to develop a co-ordinated housing access system in another area of the province.

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Community mental health agencies generally have their own access and exclusion criteria. For example, to access services, we found that some agencies required individuals to be diagnosed with a serious mental illness while other agencies did not. This creates a risk that some agencies may exclude individuals requiring more services. In addition, because agencies generally have their own intake and assessment processes, individuals apply separately to each agency to access services. This results in an inefficient use of agency staff and can be frustrating to individuals seeking assistance.

In February 2002, the Ministry issued "A Guide to Developing Recommendations on Streamlining Access to Mental Health Services and Supports." According to the Ministry, this guide is intended to assist the Mental Health Implementation Task Forces, regional offices, and stakeholders to provide optimum services to clients and to minimize the duplication of services and maximize efficiency.

We were advised that the Ministry had no information available on the overall number of seriously mentally ill people waiting for services or the overall waiting times to access services provided by community mental health agencies. We also noted that agencies generally did not record waiting lists in a consistent manner, and waiting lists were not co-ordinated among different agencies. For example, some agencies limited the number of people that could be on their waiting lists, and others did not. Information on waiting lists and waiting times is needed by the Ministry to help determine the need for specific types of services.

Information about the mental health of people living in different regions of Ontario and the prevalence of specific mental disorders in those regions is important for helping to determine the need for services and for assessing the effectiveness of services provided. For example, the Ministry would be better able to identify and address service gaps if it had information about the number of seriously mentally ill individuals in a region. The information would assist in the effective planning, evaluation, and funding of community mental health services.

Over the past two years, community comprehensive-assessment projects were undertaken throughout the province to identify the care needs of clients in community mental health programs. These projects compared client needs with the care being provided.

The project reports that we reviewed stated that the needs of individuals were often either not sufficiently met or more than sufficiently met. One report noted that its results reinforced the importance of clearly defining program admission criteria, conducting ongoing utilization reviews to ensure that changing levels of need are identified and addressed, and reviewing the complement of program types required to meet client needs. However, the projects did not recommend the level of services needed to meet client needs and did not assess the needs of persons with mental health problems who currently were not using the mental health system. We were advised that the Ministry was in the process of analyzing the results of the projects.

The most recent data that the Ministry has on the prevalence of mental disorders is from the 1990/91 Mental Health Supplement to the Ontario Health Survey. While this survey provided valuable information, only limited information was available regarding the seriously mentally ill and the severity and level of disability caused by some mental disorders. It also did not provide information concerning individuals who may have significant needs for services, such as individuals with psychotic disorders, including schizophrenia. Ministry staff informed us that a survey similar to the 1991 Ontario Health Survey was being conducted and that the results were expected in 2003.

In *Making It Happen*, the Ministry stated that "Clients, families/key supports and service providers will be able to contact a central source to get information about mental health services and how to access them." In 2001, the Ministry provided funding to the Ontario Drug and Alcohol Registry of Treatment (DART) to develop a plan for a provincial registry of mental health services and an information line. DART is currently "a province-wide information and referral service available to service providers and members of the general public, including substance abusers and family/friends of substance abusers." In May 2002, DART submitted a proposal to the Ministry for funding to develop and implement the mental health services registry. According to the proposal, the registry would support the development of two mechanisms identified in *Making It Happen* (1999): streamlined access for clients and families; and service/system accountability. At the conclusion of our audit fieldwork, the Ministry had not yet made a decision on whether to proceed with this initiative.

Recommendation

To help ensure timely and equitable access to services, the Ministry should:

- **review the feasibility of further co-ordinating access to services, including establishing common intake and assessment criteria;**
- **obtain and analyze overall waiting lists and waiting times to help determine the need for specific types of services; and**
- **ensure that public information on community mental health services and how to access those services is readily available.**

Ministry Response

In February 2002, the Ministry released the document "A Guide to Developing Recommendations on Streamlining Access to Mental Health Services and Supports." This document sets out four key features for streamlining access to mental health services, along with goals, key considerations, and required outcomes for each feature. The four features are: centralized information and referral functions; facilitating access to consultation services provided by psychiatrists; minimizing the number of assessments; and fewer points of entry to mental health services. The Mental Health Implementation Task Forces and other stakeholders are to use the guide to develop recommendations for streamlining access to mental health services. The Task Force's final recommendations are expected in December 2002.

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At the community mental health agency level, waiting lists should be client specific and shared among agencies. The Ministry is proposing an initiative for a client linkage system that will provide community mental health agencies with the ability to share waiting lists.

At the ministry level, waiting-time statistics should be aggregated to provide data on service type and volume demand so that waiting lists can be strategically managed. This data element will be added to the Community Mental Health Management Information System proposal.

The Ministry has supported the planning for the development of a provincial mental health information system, building upon the existing Drug and Alcohol Registry of Treatment. Steps are being taken to seek funds for the establishment of this information network.

INFORMATION SYSTEMS

To assist them in co-ordinating and improving care and services, community mental health agencies need up-to-date and accurate information about their clients. Such information enables an agency to respond promptly and appropriately to individual client needs. The Ministry also needs relevant information to effectively monitor the performance of agency programs and the mental health system as a whole and to assess the impact of mental health reform.

People with serious mental illnesses often need access to a broad range of services, such as assessment, treatment, housing with supports, and vocational assistance. Services are often provided by different local community mental health agencies, which may result in duplication of consumer information and a lack of co-ordination among local services. Individuals whose mental illness affects memory and thought processes are at a greater risk of losing or failing to make contact with the appropriate agencies. Co-ordination of mental health services helps ensure that people receive the services they need.

We noted that other jurisdictions had electronic client records that integrated information from a number of sources. For example, the National Health Service in England is implementing an integrated electronic mental health record. In addition, other jurisdictions are developing information systems to address the information needs of multiple users, including community agencies, government, and mentally ill individuals and their families. Confidentiality and security of mental health information is also addressed as part of these systems.

A key aspect of such systems is a minimum data set, which is a uniform set of data that enables the collection and exchange of information among different service providers. It provides information such as: the type and volume of services provided, who provides the services, who receives the services, and service outcomes. Specific service definitions that establish uniform descriptions of the services provided by community mental health agencies are needed to develop a minimum data set, and such definitions enable meaningful comparisons to be made of the costs and outcomes of services among programs.

As far back as our *1987 Annual Report*, we reported that the Ministry lacked the information necessary to plan and assess the operations of community mental health programs. In response to a related recommendation in our *1997 Annual Report*, the Ministry indicated it would be developing a mental health minimum data set. During our current audit and 15 years after we first raised the issue, we found that Ontario still has no integrated client information system. We also found that there are no system-wide agreements concerning who may access client information or under what circumstances. In many instances information is still largely paper-based. Except in the case of assertive community treatment teams, which are discussed later in this report, the Ministry has not yet developed service definitions that would enable comparisons among programs. In addition, we were informed that, while the Ministry has developed a minimum data set, its implementation has been delayed.

Many seriously mentally ill individuals receive care from various health care organizations as well as community mental health agencies. In order to co-ordinate information from all these service providers, many jurisdictions use unique client identifiers as part of their mental health information systems. The unique client identifier enables agencies to access key client data while safeguarding privacy and confidentiality. A unique client identifier also enables an individual's records in one information system to be matched with those in another system for purposes of evaluation and planning. For example, information on individuals receiving services from mental health agencies who also receive other medical services or who are involved with the justice system would assist the Ministry in determining the effectiveness of mental health programs and the need for programs.

At the time of our audit, the Ministry was in the process of establishing performance measures for mental health services. An effective mental health information system would incorporate the information required for these performance measures and, at the community level, provide data to help minimize duplication of services and maximize efficiency.

Recommendation

To better support the provision and co-ordination of community mental health services, the Ministry should design, implement, and appropriately utilize a mental health information system that captures relevant service and client data.

Ministry Response

The development of the Common Data Set—Mental Health is nearing completion. Following consultation and implementation, the Ministry will have

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The Ministry has supported the planning for the development of a provincial mental health information system, building upon the existing Drug and Alcohol Registry of Treatment. Steps are being taken to seek funds for the establishment of this information network.

INFORMATION SYSTEMS

To assist them in co-ordinating and improving care and services, community mental health agencies need up-to-date and accurate information about their clients. Such information enables an agency to respond promptly and appropriately to individual client needs. The Ministry also needs relevant information to effectively monitor the performance of agency programs and the mental health system as a whole and to assess the impact of mental health reform.

People with serious mental illnesses often need access to a broad range of services, such as assessment, treatment, housing with supports, and vocational assistance. Services are often provided by different local community mental health agencies, which may result in duplication of consumer information and a lack of co-ordination among local services. Individuals whose mental illness affects memory and thought processes are at a greater risk of losing or failing to make contact with the appropriate agencies. Co-ordination of mental health services helps ensure that people receive the services they need.

We noted that other jurisdictions had electronic client records that integrated information from a number of sources. For example, the National Health Service in England is implementing an integrated electronic mental health record. In addition, other jurisdictions are developing information systems to address the information needs of multiple users, including community agencies, government, and mentally ill individuals and their families. Confidentiality and security of mental health information is also addressed as part of these systems.

A key aspect of such systems is a minimum data set, which is a uniform set of data that enables the collection and exchange of information among different service providers. It provides information such as: the type and volume of services provided, who provides the services, who receives the services, and service outcomes. Specific service definitions that establish uniform descriptions of the services provided by community mental health agencies are needed to develop a minimum data set, and such definitions enable meaningful comparisons to be made of the costs and outcomes of services among programs.

As far back as our *1987 Annual Report*, we reported that the Ministry lacked the information necessary to plan and assess the operations of community mental health programs. In response to a related recommendation in our *1997 Annual Report*, the Ministry indicated it would be developing a mental health minimum data set. During our current audit and 15 years after we first raised the issue, we found that Ontario still has no integrated client information system. We also found that there are no system-wide agreements concerning who may access client information or under what circumstances. In many instances information is still largely paper-based. Except in the case of assertive community treatment teams, which are discussed later in this report, the Ministry has not yet developed service definitions that would enable comparisons among programs. In addition, we were informed that, while the Ministry has developed a minimum data set, its implementation has been delayed.

Many seriously mentally ill individuals receive care from various health care organizations as well as community mental health agencies. In order to co-ordinate information from all these service providers, many jurisdictions use unique client identifiers as part of their mental health information systems. The unique client identifier enables agencies to access key client data while safeguarding privacy and confidentiality. A unique client identifier also enables an individual's records in one information system to be matched with those in another system for purposes of evaluation and planning. For example, information on individuals receiving services from mental health agencies who also receive other medical services or who are involved with the justice system would assist the Ministry in determining the effectiveness of mental health programs and the need for programs.

At the time of our audit, the Ministry was in the process of establishing performance measures for mental health services. An effective mental health information system would incorporate the information required for these performance measures and, at the community level, provide data to help minimize duplication of services and maximize efficiency.

Recommendation

To better support the provision and co-ordination of community mental health services, the Ministry should design, implement, and appropriately utilize a mental health information system that captures relevant service and client data.

Ministry Response

The development of the Common Data Set—Mental Health is nearing completion. Following consultation and implementation, the Ministry will have

basic but consistent data on the definition of services, the number of clients, and the types and amounts of services received by mental health clients.

The Ministry is also developing a proposal for a client linkage system. The system's aim is to ensure that community mental health services are integrated and co-ordinated in such a way that only the most appropriate services are provided, in the interests of clients' well-being and community mental health resource utilization.

HOUSING

In the various mental health reform initiatives that have been proposed by the Ministry, there is general agreement that, with appropriate support, most seriously mentally ill individuals can live in the community. Research indicates that the housing needs and preferences of people with severe mental illness vary considerably, and therefore varying types of housing alternatives are needed to meet the needs of these individuals. Housing options funded by the Ministry include:

- housing under the Mental Health Homelessness Initiative;
- supportive housing;
- homes for special care;
- approved homes; and
- Habitat Services.

Housing Needs

In *Making It Happen* (1999), the Ministry promotes establishing a comprehensive mental health housing framework. The framework includes increasing the availability and use of accommodation that is desired by seriously mentally ill individuals and providing support services tailored to these individuals' needs.

In our *1987 Annual Report*, we commented on the shortage of good-quality affordable housing for individuals discharged from psychiatric hospitals and noted that this was a major cause of relapse and re-admission into psychiatric hospitals. During this audit, we found that the Ministry still had not determined the number or types of housing spaces required to address the needs of seriously mentally ill individuals. To complicate matters, the Ministry did not have any current province-wide information on the number of seriously mentally ill individuals who were homeless or inadequately housed. However, in 2001, the Ministry asked district health councils to conduct local research on the housing situation of persons with serious mental illnesses. The Ministry indicated that the resulting reports were designed to provide factual data but not specific recommendations. Nevertheless, the

Ministry believes this research may provide additional data on the need for housing support for the seriously mentally ill.

According to a 2001 Canadian Mortgage and Housing Corporation survey, three major urban centers in Ontario had rental accommodation vacancy rates of less than 1.5%. In addition, some areas of the province had very long waiting lists for social housing. Ministry staff also believed there were long waiting lists for ministry-funded supportive housing and advised us that one consequence of the housing shortage was that some seriously mentally ill individuals may be living in poor-quality housing or in a highly structured setting not appropriate for the individual.

Homes for Persons with Special Needs is an initiative introduced by the government to consolidate the Ministry of Health and Long-Term Care's homes for special care, approved homes, and Habitat Services with the Ministry of Community and Social Services' domiciliary hostels. The stated objective of this initiative is to improve the delivery of care for people with similar special needs by establishing common levels of funding and consistent standards, including those for staffing, drug control systems, nutrition, cleanliness, and assistance with aspects of care. While such an initiative is encouraging, it has been 15 years since we first raised a concern about the housing needs of the seriously mentally ill.

Recommendation

To help address the long-standing problem of affordable and appropriate housing for the seriously mentally ill, the Ministry should:

- **assess the number and types of housing units needed in different areas of the province and whether ministry-funded housing is meeting the needs of individuals already housed; and**
- **take appropriate steps to address the assessed housing needs.**

Ministry Response

In 2001, district health councils (DHC), on behalf of the Ministry, conducted local research on the housing situations of persons with serious mental illnesses. The DHCs consulted with key stakeholders, particularly consumers of mental health services, their families, mental health agencies, and housing providers. The consultations assessed current mental health housing and related support service delivery.

The survey also included suggestions from stakeholders on how to improve housing support for persons with mental illnesses. The study results were provided to the Mental Health Implementation Task Forces to help them in developing local mental health housing plans.

Based on the Task Forces' recommended local mental health housing plans, the Ministry will put forward appropriate housing strategies as part of the business planning cycle.

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Outcome measures relating to "housing meeting required needs" can be achieved through the psychosocial rehabilitation tool kit when fully implemented through an information system.

Mental Health Homelessness Initiative

The 1998 *Report of the Provincial Task Force on Homelessness* noted that perhaps as many as one-third of all homeless people suffer from a serious mental illness. In March 1999, the Ministry announced a provincial homelessness strategy that included providing housing and support services for people with serious mental illnesses. Phase I of the Mental Health Homelessness Initiative was to develop approximately 1,000 new housing spaces with support services for people with serious mental illnesses in Toronto, Hamilton, and Ottawa. Phase II of the initiative, which was announced in November 2000, was to provide at least 2,600 additional supportive housing units throughout the province for seriously mentally ill individuals who were homeless or at high risk of homelessness. Phase II units were to be created over a two-year period.

For both phases, non-profit agencies received funding from the Ministry to acquire the needed housing units by entering into leases with landlords and then subletting the units to individuals in the target group. However, where vacancy rates were low and affordable rental units were lacking, the Ministry provided funding to the agencies to purchase properties and, if necessary, to renovate them. Based on ministry information, by March 2002, 950 units had been secured through Phase I of the initiative and about 970 units had been secured through Phase II, of which about 80% were rental units and 20% had been purchased.

We were advised that transfer payment agreements will be used to formally establish the accountability relationship between the Ministry and the agencies providing the supports.

For leased units, the Ministry sets the rate paid by tenants and pays the agency the difference between what the tenant pays and the lease rate; it also receives occupancy information from the agencies. On the other hand, for properties that were purchased, at the time of our audit, agencies determined the amount they charged tenants. The rent charged to tenants is intended to cover the operating costs of the property. The Ministry does not formally require that agencies with purchased properties provide information about the number of units occupied by seriously mentally ill individuals. We also found no evidence that the Ministry reviews the rents charged.

We reviewed a sample of properties purchased under Phase II and found that, when purchased, some properties were already rented to tenants whose occupancy is protected under the *Tenant Protection Act*. Ministry management stated that these tenants would leave over time and that the accommodation would then become available to house the seriously mentally ill. In the interim, the agencies collect rent from the existing tenants. Thus, although the Ministry has provided funding to agencies to buy these properties, it does not know when they will actually house seriously mentally ill individuals. At our request, ministry staff obtained information about Phase II purchased properties and found that about 90 units still had the existing tenants and accordingly were not available to provide housing for the seriously mentally ill.

To determine whether Phase I of the Mental Health Homelessness Initiative had met its objectives, the Ministry surveyed Phase I housing providers for the period from April 1, 2000 to March 31, 2001. The survey results provided the Ministry with a variety of data, including a profile of the individuals housed. The profile indicated that these individuals were seriously mentally ill and either homeless or at risk of being homeless. However, the Ministry did not verify if the information was accurate. The Phase I agencies we visited confirmed that individuals housed in facilities funded through Phase I of the homelessness initiative were homeless or at risk of being homeless but they stated that a formal diagnosis of a serious mental illness was not required when assessing eligibility for housing as it was not available at the time of the assessment.

The Ministry is also funding a two-year evaluation of Phase I to assess the achievement of certain outcomes for the individuals housed and the impact the initiative has had on the use of emergency shelters, hospitals, and forensic services. A final report is expected by March 31, 2003.

Recommendation

To help ensure that the Mental Health Homelessness Initiative is meeting its objectives of providing housing with supports to seriously mentally ill individuals, the Ministry should:

- **establish a formal process to obtain information about occupancy in housing purchased with ministry assistance;**
- **establish accountability agreements with all agencies; and**
- **ensure that funding is only provided for properties that are able to provide housing and support services for people with serious mental illnesses.**

Ministry Response

The Ministry now requires agencies that have purchased properties to complete a year-end form that collects unit activity (that is, occupancy/vacancy) on a monthly basis.

Security agreements that outline accountability as it relates to the purchased property will be signed for all purchased properties.

Service agreements relating to the support services provided in the purchased properties under this initiative are in the process of being signed with the agencies.

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All properties will be providing housing and support services for persons with serious mental illnesses. In cases of tenanted buildings, this will occur over time.

Supportive Housing

Supportive housing is non-profit, subsidized housing that includes support services such as case management, social rehabilitation, assertive community treatment, and, to some extent, crisis intervention. Effective April 1, 1999, the province transferred responsibility for approximately 3,100 supportive housing units from the Ministry of Municipal Affairs and Housing to the Ministry of Health and Long-Term Care. For the 2001/02 fiscal year, expenditures for these housing units were budgeted at $26.5 million. About 75% of the housing units were for mentally ill individuals, while the rest serve long-term care or substance-abuse clients.

Agencies responsible for supportive housing units were generally required to have operating agreements with the Ministry detailing the respective responsibilities of the agencies and the Ministry. Ministry management informed us that, while there were no operating agreements covering some supportive housing projects, future planning for the entire supportive housing portfolio would include a review of operating agreements, and potential reform and consolidation of housing programs.

Since 1993, the main priority for mental health services has been the seriously mentally ill. However, at the time of our audit, the Ministry did not have any system-wide information about the individuals being housed in supportive housing units, or how many units were allocated to the seriously mentally ill. Without this information, the Ministry is unable to assess the extent current housing actually targets and serves the seriously mentally ill.

We selected a sample of agreements covering over 500 supportive housing units and found that only about 10% of the units actually stated that they were specifically dedicated to the seriously mentally ill. Many units were dedicated to individuals with "special needs," including people with serious mental illnesses and also individuals who have needs that are not associated with mental illness. Ministry staff explained that most of the supportive housing units were created prior to the time when seriously mentally ill individuals were identified as the priority group for community mental health services. However, there is no requirement that, when units become vacant, first priority be given to the seriously mentally ill.

Prior to the transfer of the housing units to the Ministry of Health and Long-Term Care, the Ministry of Municipal Affairs and Housing conducted operational reviews to monitor the housing providers' compliance with the financial and operating requirements of the operating agreements. This included assessing whether housing was being provided to the appropriate individuals. We were informed that the Ministry had begun conducting reviews in the summer of 2002. Since support services are an integral part of supportive housing, it would be beneficial to review, at the same time, support services being provided.

Recommendation

To help ensure that supportive housing serves individuals who are seriously mentally ill and to assist in assessing the need for additional housing, the Ministry should:

- **determine the extent to which existing housing is actually targeting and serving individuals who are seriously mentally ill; and**
- **ensure that first priority is given to the seriously mentally ill.**

Ministry Response

The Ministry will be looking at the targeting of the client group and plans to include the client group as part of the operational review process in mental health projects. The regional offices will include this as part of their review of the annual budgets.

The development of the Common Data Set—Mental Health (CDS—MH) is nearing completion. CDS—MH will provide baseline and current data that will capture mental health clients' living arrangements and types of residence. These data will allow the determination of whether supportive housing is targeted and provided to the seriously mentally ill, in order that the seriously mentally ill can be given the highest priority.

Homes for Special Care Program

The Homes for Special Care Program, which was established in 1964 under the *Homes for Special Care Act*, provides accommodation in private residences with 24-hour supervision and assistance with activities of daily living. As of March 2002, there were 157 homes that, during the 2001/02 fiscal year, served approximately 1,800 individuals at an estimated cost of $28.6 million. Provincially run psychiatric hospitals and psychiatric hospitals that have been divested by the province are responsible for placing individuals in homes for special care.

The *Homes for Special Care Act* and regulations require that homes for special care are licensed annually. Inspections are conducted by staff from the psychiatric hospitals that place individuals in the homes, in conjunction with inspections by the local fire department and public health unit. All reports are forwarded to the Ministry. We reviewed a sample of files at the Ministry and noted that annual inspections of homes for special care were often not received by the Ministry on a timely basis.

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Although the *Homes for Special Care Act* does not stipulate any standards for the quality of resident care, July 2001 updated interim operating guidelines issued by the Ministry set out the minimum standards of care along with specific indicators to be used in the assessment and monitoring of those standards. We were advised that regional training on these guidelines has been provided. In our *1997 Annual Report*, we noted that while homes for special care were inspected for adherence to the guidelines in place, compliance was not a requirement for licence renewal, and this was still the case at the time of our current audit.

Recommendation

To ensure that Homes for Special Care provide appropriate and consistent resident care across the province, the Ministry should ensure that:

- **inspections of the homes are completed and followed up on and deficiencies are corrected on a timely basis; and**
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Ministry Response

Annual inspections of the Homes for Special Care are completed in the fall of each year. However, co-ordination with the required public health and fire inspections is not within program control. Licences are not issued without all inspections being completed. A large number of the homes are located in rural areas, so annual inspections are done by volunteer fire departments, and timing is often problematic. Also, some municipal fire departments feel these inspections are not part of their role and are starting to balk at doing them, particularly when asked to do them within the program timetable.

Residential Home Reports are completed by field staff and accompany the fire and public health reports as part of the annual re-licensing process. Following the regionalization of the program and the hiring of regional co-ordinators, these Residential Home Reports are now being monitored closely. When needed, licences are granted with written notification of areas of concern that, if not rectified, may result in the Minister exercising other options, such as non-renewal of a licence. These homes are monitored while non-compliance issues are being resolved. Outstanding issues relating to non-compliant homes are being tracked to their necessary resolution, and actions are being taken to cease business with those unwilling to meet the established goals.

EARLY INTERVENTION PROGRAMS

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In 1999, the Ontario Working Group on Early Intervention in Psychosis was formed to develop an effective treatment and support system for the early stages of psychosis. On January 31, 2001, the working group submitted a comprehensive proposal for the first phase of its provincial strategy for early intervention in psychosis. At the time of our audit, the proposal was being considered in the context of work being done by the Mental Health Implementation Task Forces.

In addition, in the 2001/02 fiscal year, the Ministry provided funding to the Ontario Mental Health Foundation to undertake a two-year descriptive study of individuals who are experiencing the onset of first-episode psychosis. The study is being conducted at four early-intervention treatment programs operating in Ontario. Results of the study are expected in Spring 2003.

We will follow up on the Ministry's early intervention activities during our next audit of community mental health.

ASSERTIVE COMMUNITY TREATMENT

Assertive community treatment (ACT) was developed approximately 30 years ago by health-care professionals concerned about the continual re-admission of psychiatric patients to psychiatric hospitals. ACT is designed to provide care in the community for individuals with serious and persistent mental health problems, including treatment, rehabilitation, and support services. A multi-disciplinary team provides care 24 hours a day, seven days a week. Contacts with mentally ill individuals served by the team are designed to be flexible and available for as long as needed by the individuals.

ACT teams usually comprise 10 to 12 full-time clinical staff serving individuals with severe symptoms and impairments, some of whom may be hesitant to access community mental health services or may otherwise be hospitalized. Accordingly, staff-client ratios are low.

The first Ontario ACT team was formed in 1990. In 1998, the Ministry began to implement ACT across the province. As of March 2002, there were about 60 ACT teams in Ontario, of which approximately 45 were funded through community mental health. The remainder are funded through hospital budgets. In the 2001/02 fiscal year, expenditures for ACT teams funded through community mental health totalled approximately $45 million.

Need for Assertive Community Treatment

Various studies indicate that ACT is an effective way of caring for seriously mentally ill people in the community, with benefits that include improved retention in treatment programs and greater housing stability. Research also indicates that when ACT is targeted at high users of hospital inpatient care, it may result in savings. However, since ACT is a high-cost program, it is critical that it be correctly targeted to individuals requiring ACT services and not include those who would do equally well in less intensive, lower-cost programs.

The Ministry has not determined the total number of teams required or the number of teams required in different regions of the province. The required number and distribution of teams is affected by various factors, including the availability of less intensive, lower-cost services. The Ministry indicated that it is awaiting the recommendations of the Mental Health Implementation Task Forces, which may impact on the assertive community treatment program and other services.

Research indicates that, over time, some ACT clients can be well served by less intensive and less costly services with no negative effects. The Ministry's standards for ACT teams include criteria for discharging clients based on improved functioning and a consistent pattern of decreased need for ACT services. However, the Ministry has not determined how less intensive services for clients discharged from ACT should be structured. Other jurisdictions have implemented a multi-tiered system of caring for seriously mentally ill clients that includes less intensive services.

Monitoring Assertive Community Treatment Teams

In 1998, the Ministry adopted standards for its ACT teams. These standards deal with the structure and functions of the teams and admission and discharge criteria. The Ministry included mandatory adherence to the standards in service agreements with ACT teams and initially planned to have most established teams sign such agreements by March 31, 1999. However, in the three regions we visited, we found that most ACT teams had not yet signed agreements. Ministry staff indicated that they planned to have service agreements in place for most ACT teams by early in the 2002/03 fiscal year.

The Ministry monitors the performance of ACT teams through the review of operating plans and through a process similar to accreditation, whereby ACT teams are assessed for compliance with Ontario's ACT standards and adherence to expert consensus on ACT best practices.

However, the Ministry has no computerized information system that routinely collects information from ACT teams. In March 2001, the Ministry conducted a pilot survey on how many individuals ACT teams served and whether the teams were serving the target population. Although the Ministry had some concerns about the quality of the data obtained, the survey results suggested that ACT teams were serving the intended population. The survey also indicated that the average regional caseload varied from 17 to

32 clients per team, with an overall provincial average of 30 clients. Generally, a full caseload consists of 80 to 100 clients per team.

Ministry staff informed us that many teams were still relatively new at the time of the survey, and it was expected that a spring 2002 survey would indicate that most teams were closer to their full caseload. The Ministry indicated that it expects teams to reach full capacity in two to three years and that it is awaiting the reports and recommendations of the Mental Health Implementation Task Forces.

Recommendation

To help ensure the efficient, effective, and appropriate use of Assertive Community Treatment (ACT) teams, the Ministry should:

- **determine the required number and distribution of ACT teams for the province;**
- **monitor ACT teams to ensure that they are serving the seriously and persistently mentally ill target population; and**
- **ensure there are adequate services available to meet the needs of individuals no longer requiring ACT services.**

Ministry Response

As part of their mandated role, Mental Health Implementation Task Forces will be recommending future funding priorities for community services, including ACT teams. Information contained in the community assessment projects will inform the Ministry on the level of need and the services required. With the assessments completed at all current and former provincial psychiatric hospitals, the Ministry will have a very good basis for determining the number and distribution of future ACT teams and other required services.

The Ministry has initiated the second year of a monitoring and outcome survey for all ACT teams and plans to continue this through a future, larger community mental health information system.

Currently, the level of need for those no longer requiring the level of care provided by an ACT team must be assessed by the individual team. Case-by-case planning will be completed in conjunction with the current existing services in that area.

FUNDING

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Ministry funding for community mental health programs is primarily historically based—that is, the amount of funding disbursed in any year is based on the amount disbursed in the previous year. Since 1992, there have been no increases in base funding provided to community mental health agencies for programs that were operating at that time. In that regard, in June 2001, one district health council, as part of its review of annual operating plans, noted that "as a result of not having had an increase to their base budget in several years, yet having to contend with such pressures as pay equity legislation, rising rental and utility costs, technology infrastructure requirements, increasing transportation costs and the need to offer competitive staff remuneration, community mental health agencies have been forced to reduce services to the seriously mentally ill in order to stay within existing base budgets."

A recent analysis performed by the Ministry identified significant variations in the per person funding for community mental health services among the different regions of the province. While the average provincial per capita rate in the 2001/02 fiscal year was $26, the per capita funding in six of the seven regions of the province ranged from approximately $11 to $34. The per capita funding in the seventh region was approximately $60.

At the time of our audit, the Ministry had not developed a funding formula that takes into account the relative need for services and the costs of delivering services in the different regions of the province. Funding based on assessed need helps ensure that individuals with similar needs have access to similar services regardless of where they live in the province. At least two other jurisdictions outside Canada fund mental health services based on an assessment of need.

Similarly, in its 1999 advice to the Minister, the Health Services Restructuring Commission stated that it "continues to support the importance of linking allocation of resources to benchmarks based in the characteristics of the population served (i.e., needs-based funding) in the medium to long term."

Recommendation

To ensure that community mental health funding provided to regions and agencies is reasonable and equitable, the Ministry should develop a process that provides funding based on an assessment of services needed and of the resources required to meet those needs.

Ministry Response

The Ministry is in the process of converting the existing Community Mental Health (CMH) Budget & Inventory System to a CMH MIS (Management Information Systems) chart of accounts in the Ontario Hospital Reporting System. The MIS chart of accounts will provide the Ministry with more details

for in-year reporting using standard financial and statistical accounts and consistent definitions of mental health services. This will allow the comparison of expenditures across and within the various mental health sectors.

The Ministry is also in the process of setting up the Common Data Set—Mental Health (CDS—MH). It employs the same set of mental health services that are defined in the CMH MIS chart of accounts. The collection of data for this data set will be enhanced substantially by aggregating and reporting client-level data using the client linkage system.

The CDS—MH will assist the Ministry to move towards reasonable and equitable funding for community mental health agencies.

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MINISTRY OF HEALTH AND LONG-TERM CARE

3.04–Long-Term Care Facilities Activity

BACKGROUND

Long-term-care facilities provide care and services to individuals who are unable to live independently at home and who require the availability of round-the-clock nursing services to meet their daily nursing and personal care needs. These facilities comprise nursing homes and homes for the aged. They operate under the authority of the *Nursing Homes Act*, the *Homes for the Aged and Rest Homes Act*, and the *Charitable Institutions Act*. These acts and their regulations specify the requirements for admission, the care to be provided to residents, the rights of residents, the responsibilities of the facility, and the obligations of the Ministry. Rest and retirement homes, which may provide care, including assistance with daily living activities as well as nursing care, do not receive ministry funding and are not covered by these three acts.

In each act, the stated fundamental principle to be applied is that each long-term-care facility "is primarily the home of its residents and as such it is to be operated in such a way that the physical, psychological, social, cultural, and spiritual needs of each of its residents are adequately met and that its residents are given the opportunity to contribute, in accordance with their ability, to the physical, psychological, social, cultural, and spiritual needs of others."

Admissions to long-term-care facilities are arranged by placement co-ordinators designated by the Minister. In determining eligibility for admission, a placement co-ordinator takes into account an assessment made by a health practitioner relating to a person's impairment or capacity and an assessment of information relating to the person's requirements for medical treatment, health care, or other personal care.

The Ministry's key responsibility regarding the operations of long-term-care facilities is to ensure that they are delivering services to residents in accordance with their service agreements with the Ministry and in compliance with applicable legislation and ministry policies. Ministry oversight for long-term-care facilities is carried out through the Ministry's seven regional offices. Funding for the Long-Term Care Facilities Activity is provided through the Ministry's Integrated Health Care Program.

In 1998, the government announced an eight-year plan to provide 20,000 new long-term-care beds and to renovate structurally non-compliant facilities containing 13,583 long-term-care beds. In March 1999, the government announced that the 20,000 new beds would be completed by 2004. With respect to structurally non-compliant facilities to be renovated by 2006, the number of beds was later revised to 15,835. In early 2000, the Ministry established a Long-Term Care Redevelopment Project office to undertake operational responsibility for the plan.

Funding for long-term-care facilities is provided through four distinct per diems (funding envelopes). The daily rate for each is set by regulation. As at March 31, 2002, the per diem rates for residents of long-term-care facilities who required an average level of care were as outlined in the following table.

Per Diems for Long-Term-Care Residents Requiring an Average Level of Care, as at March 31, 2002

Funding Envelope	Per Diem ($)
Nursing and personal care	52.38
Program and support services	5.24
Raw food	4.49
Other accommodation costs*	40.21
Total	**102.32**

* Facility costs, including administration, housekeeping, building and operational maintenance, and dietary and laundry services.

Source of data: Ministry of Health and Long-Term Care

The per diems are the same for all facilities, except for the nursing and personal care rate, which is based on an assessed level of care for each resident living in a facility.

Residents make co-payments for their accommodation and food. The maximum daily rate paid by the resident for basic accommodation is $44.51. Residents in basic accommodation who do not have sufficient income to pay the maximum rate can apply for a rate reduction. The amount of the reduction is dependent on the resident's income. Facilities are allowed to reduce the basic accommodation rate to $30.24 per day without obtaining ministry authorization. Any further reductions require ministry approval.

If a resident pays less than the basic rate, the Ministry makes up the difference, so that the facility receives the full $44.51. A long-term-care facility can also charge residents an additional $8 for a semi-private room and $18 for a private room. Residents in semi-private and private rooms must pay the full basic accommodation rate in addition to the applicable premium.

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As of March 2002, there were approximately 60,000 residents in 558 long-term-care facilities. For the 2001/02 fiscal year, long-term-care facilities received approximately $1.6 billion in funding from the Ministry and approximately $793 million in accommodation charges from residents.

AUDIT OBJECTIVES AND SCOPE

The objectives of our audit of the Long-Term Care Facilities Activity were to assess whether the Ministry had adequate procedures in place to:

- ensure that resources were managed with due regard for economy and efficiency;
- ensure that facilities providing long-term-care were complying with applicable legislation and ministry policies; and
- measure and report on the Activity's effectiveness.

Our audit was performed in accordance with standards for assurance engagements, encompassing value for money and compliance, established by the Canadian Institute of Chartered Accountants, and accordingly included such tests and other procedures as we considered necessary in the circumstances. Prior to the commencement of our work, we identified the audit criteria that would be used to address our audit objectives. These criteria were reviewed and agreed to by senior management.

The scope of our audit work, which was substantially completed by May 2002, included a review and analysis of information available at the Ministry's head office, three regional offices, and the Redevelopment Project office, as well as discussions with appropriate staff. We visited a number of long-term-care facilities to gain a better understanding of the services being provided and to review certain procedures.

We also met with representatives of the Ontario Long Term Care Association and the Ontario Association of Non-Profit Homes and Services for Seniors, which collectively represent most of the owners/operators of long-term-care facilities in Ontario.

In 2001, the Ministry's Internal Audit Services Branch undertook a review of a long-term-care facility regarding financial complaints and compliance with the *Nursing Homes Act*. However, the results of this review did not affect the extent of our audit work because it primarily addressed specific concerns related to one facility.

OVERALL AUDIT CONCLUSIONS

In certain significant respects, the Ministry did not have all of the necessary procedures in place to ensure that long-term-care resources are managed with due regard for economy and efficiency and that long-term-care facilities are complying with applicable ministry policies. A number of our concerns were also reported in our 1995 Annual Report. In particular, we noted:

- The Ministry had still not developed either standards to measure the efficiency of facilities in providing quality care or models for staff mixes for providing nursing and personal care and, therefore, did not have a sufficient basis for determining appropriate levels of funding. In addition, the Ministry had not addressed the results of a 2001 consulting report that noted that residents of Ontario's long-term-care facilities "receive less nursing and therapy services than [those in] similar jurisdictions with similar populations."
- Although the Ministry inspected all long-term care facilities in 2001, it did not have a risk-based approach for prioritizing its facility inspection procedures, such as conducting in-depth inspections of facilities with a history of failing to meet provincial quality-of-care standards.
- Some regions lacked advisors, such as dieticians, who could provide specialized advice. For instance, in facilities that they inspected, dieticians found higher incidences of unmet dietary criteria—such as unsanitary procedures in the kitchen and lack of appropriate nutrition—than compliance advisors found.
- The Ministry was not adequately tracking complaints, unusual occurrences, and outbreaks of contagious diseases to identify and resolve systemic problems. In 2001, of seven regions, only two regions recorded unusual occurrences, which totalled 1,900. In the same year, only four regions recorded outbreaks of contagious diseases, which totalled 219 and affected 7,500 residents and staff.
- Contrary to legislation, none of the nursing homes in Ontario had current ministry-issued licences at the time of our audit. At least 15% of licences had expired more than one-and-a-half years ago. As well, most nursing homes that opened after 1998 had never been issued a licence.
- Surplus funds were not being recovered from facilities on a timely basis because the Ministry was performing annual reconciliations almost two years after the applicable year-end. The delayed recovery of approximately $50 million for the 1999 calendar year resulted in approximately $5 million in interest expenses being passed on to the taxpayers.

Since our previous audit in 1995, the Ministry has established a target for the number of long-term-care beds required and has implemented a strategy to cope with the increasing demand for beds arising from the growing elderly population. However, the Ministry did not have a process in place for periodically reviewing whether its target of 100 beds per 1,000 individuals aged 75 and over was appropriate.

Through the long-term-care redevelopment project, the Ministry allocated funding to build new long-term-care facilities in regions of the province where the need for additional beds was the greatest and was providing financial assistance to facilities that do not meet minimum structural and environmental standards.

Finally, we concluded that the Ministry's procedures for providing adequate accountability to the public and ensuring that long-term-care facilities provide services efficiently and effectively were impaired because:

- Financial information submitted by facilities was not sufficient to allow the Ministry to determine whether funds had been used in accordance with the Ministry's expectations.
- The Ministry had not developed outcome measures that addressed the appropriateness of services provided, including the quality of care received by residents.

DETAILED AUDIT OBSERVATIONS

MONITORING QUALITY OF CARE

The Ministry's primary tool for monitoring the quality of care provided to residents of long-term-care facilities is its Compliance Management Program, whereby the Ministry is to:

- conduct annual inspections of all long-term-care facilities;
- conduct other inspections as required by specialists, such as dietary and environmental advisors; and
- investigate complaints submitted by residents, residents' families, and the general public.

The Compliance Monitoring Program is the responsibility of the regional offices. Each regional office is staffed by a long-term-care manager and compliance advisors who are registered nurses. Some regional offices also have an environmental and/or dietary advisor(s) to handle more specialized reviews. Compliance advisors inspect facilities to ensure that all legislation, regulations, and standards as defined in the Ministry's Long-Term Care Facility Program Manual are being met. Facilities that fail to meet any of these requirements must take appropriate and timely corrective action. If standards continue to be unmet and/or there is a serious threat to the health, safety, or welfare of residents, a facility can be put under enforcement.

In July 2000, the Minister announced that a full evaluation of the Compliance Management Program would be conducted to:

- identify the current strengths and weaknesses of the program;
- analyze long-term-care monitoring mechanisms in other jurisdictions;
- identify opportunities to strengthen linkages with other long-term-care initiatives;
- recommend opportunities for program improvement; and
- recommend areas for more in-depth study.

The review was being done internally in consultation with stakeholder groups. Initially the deadline for the project was December 2001, but has been rescheduled for the end of 2002.

At the time of our audit, the review committee had identified the strengths and weaknesses of the compliance program and developed a draft enforcement policy and a list of triggers to identify when a facility may not be spending funds prudently or for the purposes intended. However, recommendations for compliance program improvement remained to be developed.

Annual Inspections

Under the *Nursing Homes, Homes for the Aged,* and *Charitable Homes* acts, the Ministry has the right to inspect facilities to ensure compliance with legislation and regulations, service agreements, and/or licences. According to ministry policy, "reviews will be conducted at least once in a calendar year." The objective of the annual inspection is to monitor and evaluate the quality of resident care and services, the quality of programs, and the overall operation of each facility. The results of the annual inspections are to be posted in each facility.

Between 1997 and 1999, fewer than half of the facilities were inspected annually. In 2000, the then Minister announced that all long-term-care facilities would be inspected on a yearly basis. All of the facilities were inspected in the 2001 calendar year. We reviewed the inspection process and noted that, although senior management tracks the number of inspections completed, they do not routinely review the findings of these inspections in order to identify:

- facilities not in compliance with legislation and ministry policies;
- facilities with infractions that can have a serious negative impact on the quality of resident care;
- facilities that consistently have problems; and
- operators who demonstrate a pattern of non-compliance in their facilities.

We also noted that:

- The Ministry lacked a formalized risk-assessment approach for prioritizing inspection procedures or focusing on facilities with a history of failing to meet provincial quality standards. Currently, the Ministry conducts an in-depth, annual inspection at all facilities, which on average takes four days for each facility. However, a full inspection may not be warranted for facilities that have historically always been in compliance and have received few or no complaints, while facilities with chronic problems may warrant more in-depth inspections.
- Both associations representing facility operators informed us that, according to their member facilities, compliance standards were not being applied consistently among

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facilities and across regions. Much depends on how those standards are interpreted and enforced by compliance advisors. For example, some compliance advisors told us that they might give an operator a warning while another advisor might give a citation for the same unmet standard.

- A facility may be notified up to a week in advance of an upcoming annual inspection. Some facilities may use this time to "prepare" for the inspection. As such, the inspection results may not be reflective of the ongoing care provided at the facility. For example, one facility wrote to its corporate office that, "The Nursing Department, with considerable help from Corporate staff and registered staff from other Corporate facilities, had a week to prepare for the [Ministry] annual review. All staff involved are to be commended for their efforts which were reflected in the favourable outcome of the review."
- Ministry policy states that a compliance advisor can refer issues to advisors who specialize in the areas of environmental health, dietary, financial, and medical services. We were advised that, while there has not been a medical advisor available for the last five years, medical advice is sought when it is needed. However, none of the three regions we visited had an environmental advisor and only one had a dietary advisor. In addition, the compliance advisors lacked guidance as to when a referral was appropriate. We also noted that regions with dietary advisors were more likely to initiate dietary inspections, and facilities inspected by dieticians had higher reports of incidences of unmet dietary criteria. These included unsanitary procedures in the kitchen, lack of disinfectant use, inadequate maintenance of food temperatures, and lack of appropriate nutrition.
- "Focused audits" are part of the annual inspection process and require compliance advisors to select the case files of six residents from each facility to investigate areas considered to be of highest risk to residents, including unplanned weight change, pressure ulcers, pain and discomfort, disruptive behaviour, and use of restraints. The results of these audits are used to reach conclusions on the adequacy of care provided by a facility.

  The sampling methodology was left to the discretion of each compliance advisor. Some compliance advisors told us that they based sample sizes on previous facility visits and personal comfort levels, while others indicated they selected samples based on bed capacity. We reviewed a sample of annual review files and noted that in 92% of the cases less than six case files were reviewed. Furthermore, we found no evidence to indicate that management had reviewed and approved the adequacy of the sample sizes used. A similar concern was raised in our 1995 Annual Report.

Recommendation

To help ensure that long-term-care facilities meet the assessed needs of each of their residents, the Ministry should:

- **ensure senior management assesses the results of annual facility inspections for possible corrective and preventive action;**
- **implement a formalized risk-assessment approach for its annual inspections that concentrates on facilities with a history of non-compliance and prioritizes inspection procedures;**
- **ensure consistency in the application of standards;**
- **establish acceptable notification periods and conduct surprise inspections of high-risk facilities to reduce the risk that facilities will "prepare" for an inspection; and**
- **evaluate the experience and skills required to inspect facility operations and ensure the appropriate mix of specialists is available.**

Ministry Response

The Ministry's compliance program is carried out by staff who are fully committed to ensuring the health and quality of life of residents. However, the Ministry strives to improve and is currently undertaking a comprehensive review to determine areas for improvement, including appropriate staff mix. The Ministry continues to recruit for vacant positions to meet the needs of its compliance management program.

The core of this review is the development of a risk-assessment approach. Features may include the addition of risk indicators that will act as triggers for action by compliance staff and/or senior management. These indicators and actions would be in addition to actions that are currently triggered by reports from the compliance management team.

The Ministry currently conducts unannounced visits to long-term-care facilities and expects to incorporate surprise inspections in the future.

Health and Safety of Residents

COMPLAINTS

Ministry policy requires that all complaints made against a long-term-care facility be investigated within 20 days of being received. Currently all complaint investigations are conducted by regional compliance officers. In the past, the Ministry had an enforcement unit, which investigated the more serious complaints, such as alleged resident abuse. However, the enforcement unit was discontinued in June 1999.

The Ministry tracks the response times for and the nature and source of the complaint. We analyzed complaint information recorded in the Facility Monitoring Information System (FMIS) and noted the following items:

- In the last two years, 83% of complaints were investigated within the required 20 days. However, performance varied greatly across regions. While one region almost always facilities and across regions. Much depends on how those standards are interpreted and enforced by compliance advisors. For example, some compliance advisors told us that they might give an operator a warning while another advisor might give a citation for the same unmet standard.

- A facility may be notified up to a week in advance of an upcoming annual inspection. Some facilities may use this time to "prepare" for the inspection. As such, the inspection results may not be reflective of the ongoing care provided at the facility. For example, one facility wrote to its corporate office that, "The Nursing Department, with considerable help from Corporate staff and registered staff from other Corporate facilities, had a week to prepare for the [Ministry] annual review. All staff involved are to be commended for their efforts which were reflected in the favourable outcome of the review."
- Ministry policy states that a compliance advisor can refer issues to advisors who specialize in the areas of environmental health, dietary, financial, and medical services. We were advised that, while there has not been a medical advisor available for the last five years, medical advice is sought when it is needed. However, none of the three regions we visited had an environmental advisor and only one had a dietary advisor. In addition, the compliance advisors lacked guidance as to when a referral was appropriate. We also noted that regions with dietary advisors were more likely to initiate dietary inspections, and facilities inspected by dieticians had higher reports of incidences of unmet dietary criteria. These included unsanitary procedures in the kitchen, lack of disinfectant use, inadequate maintenance of food temperatures, and lack of appropriate nutrition.
- "Focused audits" are part of the annual inspection process and require compliance advisors to select the case files of six residents from each facility to investigate areas considered to be of highest risk to residents, including unplanned weight change, pressure ulcers, pain and discomfort, disruptive behaviour, and use of restraints. The results of these audits are used to reach conclusions on the adequacy of care provided by a facility.

  The sampling methodology was left to the discretion of each compliance advisor. Some compliance advisors told us that they based sample sizes on previous facility visits and personal comfort levels, while others indicated they selected samples based on bed capacity. We reviewed a sample of annual review files and noted that in 92% of the cases less than six case files were reviewed. Furthermore, we found no evidence to indicate that management had reviewed and approved the adequacy of the sample sizes used. A similar concern was raised in our 1995 Annual Report.

Recommendation

To help ensure that long-term-care facilities meet the assessed needs of each of their residents, the Ministry should:

- **ensure senior management assesses the results of annual facility inspections for possible corrective and preventive action;**
- **implement a formalized risk-assessment approach for its annual inspections that concentrates on facilities with a history of non-compliance and prioritizes inspection procedures;**
- **ensure consistency in the application of standards;**
- **establish acceptable notification periods and conduct surprise inspections of high-risk facilities to reduce the risk that facilities will "prepare" for an inspection; and**
- **evaluate the experience and skills required to inspect facility operations and ensure the appropriate mix of specialists is available.**

Ministry Response

The Ministry's compliance program is carried out by staff who are fully committed to ensuring the health and quality of life of residents. However, the Ministry strives to improve and is currently undertaking a comprehensive review to determine areas for improvement, including appropriate staff mix. The Ministry continues to recruit for vacant positions to meet the needs of its compliance management program.

The core of this review is the development of a risk-assessment approach. Features may include the addition of risk indicators that will act as triggers for action by compliance staff and/or senior management. These indicators and actions would be in addition to actions that are currently triggered by reports from the compliance management team.

The Ministry currently conducts unannounced visits to long-term-care facilities and expects to incorporate surprise inspections in the future.

Health and Safety of Residents

COMPLAINTS

Ministry policy requires that all complaints made against a long-term-care facility be investigated within 20 days of being received. Currently all complaint investigations are conducted by regional compliance officers. In the past, the Ministry had an enforcement unit, which investigated the more serious complaints, such as alleged resident abuse. However, the enforcement unit was discontinued in June 1999.

The Ministry tracks the response times for and the nature and source of the complaint. We analyzed complaint information recorded in the Facility Monitoring Information System (FMIS) and noted the following items:

- In the last two years, 83% of complaints were investigated within the required 20 days. However, performance varied greatly across regions. While one region almost always met the 20-day requirement, another region was consistently late in completing one-third of its complaint investigations.

- In the three regions we visited, at least half of the facilities did not receive any complaints in 2001. We noted that most facilities that had received more than 10 complaints each also had significant non-compliance issues identified during the annual inspection process. For example, a facility that received a total of 29 complaints in 2001 and 24 complaints in 2000 also had reoccurring non-compliance issues going back to 1990. However, the Ministry had no procedures for analyzing complaints in order to identify and address facility/system weaknesses.

UNUSUAL OCCURRENCES

The Ministry defines an unusual occurrence as "an occurrence that poses a potential or actual risk to the safety, security, welfare, and/or health of a resident, or to the safety and security of the facility, which requires action by staff." Facilities are required to report all unusual occurrences to the Ministry's regional offices. The regional compliance advisors review the details of incidents, and consider what action, if any, is necessary.

At the time of our audit, there was no requirement to record unusual occurrences in FMIS. However, for the two regions that did record unusual occurrences in FMIS, we found a total of 1,600 unusual occurrences for calendar year 2000 and 1,900 for 2001. Injuries requiring transfer of a resident to a hospital for treatment or admission accounted for 70% of all unusual occurrences recorded in FMIS while cases of alleged abuse of residents represented 9% of reported cases.

We reviewed unusual occurrence reports for a sample of long-term-care facilities in the regions we visited and found that facilities that exhibited a higher number of repetitive, serious non-compliance issues and complaints also experienced a higher number of unusual occurrences. For instance, one such facility that had ongoing serious compliance issues for more than 10 years also had very serious occurrences.

OUTBREAKS OF CONTAGIOUS INFECTIONS

Ministry policy requires long-term-care facilities to report all outbreaks of contagious infections to their respective regional offices. This is to help the Ministry:

- identify outbreak prevalence and emerging trends in long-term-care facilities;
- ensure outbreak information is relayed to appropriate personnel; and
- ensure that information relating to outbreaks is complete, including information outlining the duration of the outbreak.

The Ministry relies on local public health departments to assess and respond to outbreak information.

For each reported outbreak, an outbreak document is prepared, reviewed by the regional compliance advisor, and filed in the appropriate facility's file. Regional offices are required to maintain an outbreak log, which lists each facility that had an outbreak, the type of outbreak, and the dates of initial and final notification to the Ministry.

At the time of our audit, only four of the seven regional offices were recording outbreaks in FMIS. Those four regions alone reported a total of 219 outbreaks in 2001, affecting over 7,500 residents and staff. We visited two of the regional offices that did not maintain their logbooks on FMIS. The logbook for one region indicated an additional 80 outbreaks in 2001 but contained no indication of how many people were affected. The second region we visited did not maintain a logbook at all.

For the regions that did record outbreaks in FMIS, we noted one region accounted for 62% of all outbreaks in 2001. This trend was consistent with the prior three years. However, it was unclear whether there was a problem with infection control practices in this region or whether facilities in other regions were not accurately reporting all outbreaks to their regional offices. In addition, we found that no effort had been made to correlate the number of outbreaks per facility with the unmet criteria identified in annual inspections, such as poor sanitation, environmental cleanliness, or resident hygiene.

Recommendation

To better protect the health and safety of residents of long-term-care facilities, the Ministry should ensure that all:

- **complaints are investigated and responded to in a timely manner;**
- **unusual occurrences and outbreaks of contagious infections are reported to the Ministry and recorded in its Facility Monitoring Information System on a timely basis; and**
- **complaints, unusual occurrences, and outbreaks of contagious infections are assessed in relationship to annual facility inspection results to identify and resolve systemic problems.**

Ministry Response

The Ministry has a policy of investigating and responding to complaints within 20 days. The Ministry has a good track record of responding to complaints; however, it is continually striving to improve.

Ministry staff follow up on all unusual occurrences. The Ministry, in conjunction with local public health agencies, has strict protocols and procedures to ensure resident safety in outbreak situations (for example, quarantines and specific hygiene measures). Local public health agencies determine when a facility is in outbreak status.

The Ministry is committed to improving its data-entry systems with respect to these issues and will use this data to identify and resolve any systemic problems.

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Facility Licences and Service Agreements

Under *The Nursing Homes Act* "no person shall establish, operate, or maintain a nursing home except under the authority of a licence issued by the Director under this Act." All licences expire and must be renewed annually and may be revoked or their renewal refused if the licensee contravenes the legislation. While there are no licensing requirements for municipal and charitable homes, all long-term-care facility operators are required to have a signed service agreement with the Ministry.

We reviewed the licence status of nursing homes and found that, at the time of our audit, none of the nursing homes operating in the province of Ontario had a valid operating licence. While most of the licences had expired within the last year, at least 15% of licences had expired more than one and a half years ago. In fact, we noted one facility whose licence had expired in 1994, another whose licence had expired in 1997, and two others whose licences had expired in 1998. As well, most nursing homes that opened after 1998 had never been issued a licence to operate.

According to the Management Board of Cabinet Directive on Transfer Payment Accountability, a signed agreement must be in place prior to advancing any provincial funds to transfer-payment recipients, which include long-term-care facility operators. We noted, however, that the Ministry's normal practice is to finalize and sign service agreements after the funding year has passed. At the time of our audit, none of the service agreements for the 2001 and 2002 calendar years had been signed. While ministry staff indicated to us that the old service agreements remain in effect, the facility operators in one of the regions we visited often disagreed with the Ministry's position. Service agreements cover a specific year because they indicate the amount of the subsidy only for that year.

We also noted the Ministry did not take into consideration whether or not the facilities were in compliance with ministry standards at the time service agreements were signed.

Recommendation

To help ensure that ministry policies and legislation regarding long-term-care facilities are followed and that long-term-care service providers understand their responsibilities, the Ministry should ensure that all long-term-care facilities have valid service agreements and that each facility's compliance status is taken into account.

The Ministry should also ensure that all nursing homes have valid licences as required by legislation.

Ministry Response

The Ministry is undertaking a review of the management process supporting service agreements. The 2001 and 2002 service agreements will be distributed

to facility operators by October 31, 2002. The Ministry will distribute the 2003 service agreements to facility operators by December 31, 2002.

The Ministry now has a program in place to ensure all licences are current. As of September 1, 2002, all nursing homes have current licences.

PER DIEM FUNDING

Level-of-care Classifications

Level-of-care requirements for residents are determined through an annual classification assessment of residents at each facility conducted by ministry assessors. The assessors, who are registered nurses with long-term-care experience, conduct the assessments by reviewing resident charts and plans of care. Residents are classified into one of seven nursing and personal care categories based on the level of care they require. Each category is assigned an established weight based on assessed resident needs, taking into account the related resource use. The percentage of residents in each category is multiplied by weighting factors to determine the case-mix measure of that facility. The ratio of the facility's case-mix measure to the average provincial case-mix measure produces a case-mix index, which is multiplied by a set per diem rate to determine the funding a facility will receive per resident for nursing and personal care.

Long-term-care facility funding through the nursing and personal care funding envelope in the 2001/02 fiscal year totalled approximately $1.1 billion of the $1.6 billion provided by the Ministry to long-term-care facilities.

LEVEL-OF-CARE AUDITS AND APPEALS

A decrease in a facility's case-mix measure affects the per diem it receives for nursing and personal care. A facility is entitled to appeal its classification if its case-mix measure decreases by more than 7% from the previous year. In 1997, the Ministry introduced annual audits of facilities whereby it verifies the level-of-care classification at a sample of facilities. These audits initially involve the reassessment of a minimum of 20 residents and are based on the residents' documented care and direct observation. If the case-mix measure for those residents exceeds their annual classification by more than 10%, a full audit is conducted on all facility residents who were there when the annual classification was completed.

According to ministry policy, if the full audit verifies that the documented and observed care have changed by more than 10% from the annual classification, the Ministry will consider increasing or decreasing funding. In a December 2001 memo to all regional offices, the Ministry noted that since the audit and appeals process began, the policy to decrease funding had not been applied where warranted.

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The Ministry currently offers seminars to help facilities improve their documentation of resident-care needs but does not penalize those facilities that, based on the audits, it knows or strongly suspects are misrepresenting resident needs in an effort to obtain additional funding.

Recommendation

To help ensure fairness in the levels of funding provided to long-term-care facilities, the Ministry should adjust funding where warranted as a result of any level-of-care classification audit in accordance with its policy.

Ministry Response

Currently, some adjustments are made by the Ministry as a result of audits. However, the Ministry will be reviewing the implementation of the policy to adjust funding as a result of the audit and appeals process.

Reasonableness of Per Diem Funding

In our 1995 audit report, we recommended that the Ministry use information on the cost of providing care and accommodation to verify the accuracy of the standard rates paid in each of the funding envelopes. Since that time, the Ministry has made periodic funding adjustments based primarily on the overall increase in the provincial case-mix measure. However, the Ministry has not done a detailed analysis to determine an appropriate amount of funding.

In June 2000, the Ministry established a committee to review how funding is determined, allocated, and distributed and to recommend improvements to the current per-diem-based methodology. The committee, composed of ministry staff and representatives from associations of service-provider groups, recommended increases in the four funding envelopes based on changes in residents' needs, negotiated contract increases with staff, and other inflation-related adjustments but did not discuss the adequacy of the current funding amount.

For the past two years, the Ministry has produced sector per diem reports that list for each facility the actual amount spent per resident per day for each type of expense and for each funding envelope in total. The cost data is accumulated by sector (charitable homes, municipal homes, and nursing homes) within each region. We reviewed the 1999 reports for the three regions we visited and noted large variances among the sectors and among facilities in expenditures for nursing and personal care and in accommodation expenses.

In our 1995 Annual Report, we also recommended that the Ministry develop standards to measure the efficiency of facilities in providing quality care and develop models for staff mixes for providing nursing and personal care to arrive at appropriate funding levels. Prior

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In our 1995 Annual Report, we also recommended that the Ministry develop standards to measure the efficiency of facilities in providing quality care and develop models for staff mixes for providing nursing and personal care to arrive at appropriate funding levels. Prior to 1996, the Ministry required each long-term-care facility to have a registered nurse on duty and on site at all times, and it guaranteed, as a minimum, sufficient funding to ensure that each nursing-home resident received, on average, a minimum of 2.25 hours of nursing and personal care per day. This funding was to be provided regardless of the overall care needs of residents in each nursing home.

In 2001, the Ministry provided the funding for a consulting firm to review how the level of services provided to residents of Ontario's long-term-care facilities in terms of nursing staff, health care aides, and therapies compared to services provided in other jurisdictions in Canada, the U.S., Europe, and in Ontario's chronic-care facilities. The report considered only the amount of care provided, not the quality of care. According to the consultants, the study's limitations included the facts that data for many of the comparative jurisdictions were gathered from three to five years earlier than the Ontario data and that "several of the jurisdictions were required to submit the data for funding purposes, which may influence data quality." Nevertheless, the published report stated:

> The results of this study indicate that residents in Ontario [long-term-care] facilities receive less nursing and therapy services than similar jurisdictions with similar populations. Furthermore, Ontario [long-term-care] residents have some significant differences in terms of their levels of depression, cognitive levels and behavioural problems which indicate higher needs for service levels to meet higher care requirements.

Specifically:

- The proportion of care provided by registered nurses in Ontario's long-term-care facilities to each resident per day was the lowest in comparison with other jurisdictions.
- Only one-third of Ontario residents in long-term-care facilities who had restricted ranges of motion received any range-of-motion exercise.
- Ontario residents in long-term-care facilities had the highest proportion of mental health disturbances and/or problems, of which 65% were handled either with restraints or anti-psychotic medication. Less than 6% had any intervention related to evaluation or "talk therapies."

We found no evidence to indicate that the Ministry had addressed the results of this study.

We also noted that 36 U.S. states have established staffing requirements or standards, such as:

- a minimum number of hours of nursing care per resident per day;
- a minimum caregiver-to-resident ratio; and/or
- a requirement for a registered nurse to be on site 24 hours a day.

Currently, the Ministry does not have any staffing requirements and does not track facility staff-to-resident ratios, the number of registered-nursing hours per resident, or the mix of registered and non-registered nursing staff.

Recommendation

To help ensure that the funding provided to long-term-care facilities is sufficient to provide the level of care required by residents and that the assessed needs of residents are being met, the Ministry should:

- **verify the reasonableness of the current standard rates for each funding category and develop standards to measure the efficiency of facilities providing services;**
- **track staff-to-resident ratios, the number of registered-nursing hours per resident, and the mix of registered to non-registered nursing staff and determine whether the levels of care provided are meeting the assessed needs of residents; and**
- **develop appropriate staffing standards for long-term-care facilities.**

Ministry Response

Effective August 1, 2002, the Ministry increased nursing and personal care funding by $100 million ($6.33 per resident per day). The total per diem for a long-term-care facility with average care levels is $110.73.

Currently, long-term-care facilities receive differential funding based on the care needs of their residents. The Ministry is committed to investigating the feasibility of implementing a new resident-classification instrument and funding methodology that will further enhance its ability to assess resident care and staffing needs.

Annual Reconciliations

The Ministry's Long-Term Care Facility Program Manual states that each facility is required to submit an audited annual report to its regional office so the regional office can compare actual to approved expenditures and determine whether a final funding adjustment is necessary.

We noted that the Ministry had not established any timelines for completing the annual reconciliations and that surpluses were not being recovered promptly. For instance, surpluses for 1998 were recovered in late 2000 and early 2001, and, at the time of our audit, reconciliations for 1999 were still being completed. In each of the last three years, net surpluses owed to the Ministry exceeded $50 million. Given that the average one-year borrowing rate for the government in 2000 and 2001 was 5.7% and 3.8% respectively, the late recoveries of excess funding for the 1999 calendar year alone have cost taxpayers at least $5 million in interest expenses.

For the 1999 calendar year, the Ministry did not forward annual report forms to facilities until April 2001. Most facility operators completed and returned the required forms within 90 days of receipt, as required under ministry policy. However, regional office staff did not

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Most long-term-care facilities have surpluses because the Ministry regularly underestimates facility revenue from resident payments. For example, the Ministry used actual resident revenue for 1996 to estimate facility resident revenue for 1999, without making adjustments for known increases in the per diem accommodation rates. Resident revenue cannot be easily estimated because some residents are eligible for rate reductions due to financial need. As mentioned earlier, facilities are allowed to reduce the basic resident rate for ward accommodation from $44.51/day to $30.24/day for residents in financial need without ministry authorization.

Although financial analysts in the regional offices are now adjusting in-year payments based on more recent estimates of resident revenue, there were inconsistencies in the approaches among regions. Ministry staff advised us that, beginning July 1, 2002, the process for in-year adjustments will be standardized.

RECONCILIATION PROCESS

Funding provided to long-term-care facilities within each envelope is intended to cover eligible expenses as outlined in the Ministry's Long-Term Care Facility Program Manual. Except for funds received for certain accommodation costs, facilities must return all unspent funds to the Ministry.

We reviewed the financial information submitted by facilities to the Ministry's regional offices and found that there was insufficient information to determine whether funds within each envelope were used for their intended purposes. Most of the Ministry's regional financial analysts we surveyed agreed that the information was inadequate.

The majority of expenditures in the nursing and personal care funding envelope are for staff salaries, yet facilities are not required to submit staffing data, such as the number of employees per type (registered nurses, practical nurses, and health care aids) or their respective salaries. Also, facilities do not routinely provide regional offices with a list of equipment and supplies purchased during the year under each funding envelope. Analysts advised us that, in several instances, facilities charged accommodation equipment and supplies as medical items to the nursing and personal care funding envelope, thus minimizing the amount of funding they may be required to return to the Ministry.

In addition, a number of long-term-care facility operators are also operating retirement homes on adjacent premises. Retirement homes do not receive ministry funding but may share some services and staff with their affiliated long-term-care facilities. For three regions alone, the Ministry identified 69 long-term-care facilities with attached retirement homes operating in the same facility. Long-term-care facilities are not required to submit a full set of audited financial statements. Without audited financial statements that contain segregated information, the Ministry does not know whether operators are properly allocating costs.

Recommendation

To help ensure surplus funding to long-term-care facilities is accurately identified and returned to the province on a timely basis, the Ministry should ensure that:

- **audited financial information provided by facilities meets ministry needs; and**
- **reconciliations are completed and surpluses recovered on a timely basis.**

Ministry Response

The Ministry will review the form and content of information currently collected from facilities to ensure that it is meeting ministry needs.

The Ministry will commit to sending out the 2001 and 2002 reconciliation reports to long-term-care facilities by December 31, 2002.

The Ministry has developed a consistent revenue/occupancy report. Beginning January 1, 2003, all seven regional offices will monitor and adjust cash flows as required.

THE LONG-TERM CARE REDEVELOPMENT PROJECT

Supply of Long-term-care Beds

In our 1995 Annual Report, we noted that, although it was aware of significant growth projected for the population aged 65 and over, the Ministry did not have a strategy for dealing with the anticipated increase in demand for long-term-care beds. We also noted that it did not have a systematic plan to determine where beds were most needed and to eliminate the wide variations in bed supply to make it equitable throughout the province.

In the fall of 1996, the Ministry established the Long-Term Care Bed Distribution and Needs Study Steering Committee (steering committee), made up of ministry staff and representatives from external associations. The steering committee was to review ways to equitably distribute long-term-care beds throughout the province and to suggest any policy or legislative changes to facilitate such a distribution.

In the introduction to its April 1997 report, the steering committee noted that provincially funded and regulated long-term-care beds had "for many years been inequitably distributed across Ontario both by region and within regions themselves. This distribution has occurred more by 'accident' than as a result of needs-based planning."

The steering committee indicated that "given the time parameters of the study and issues affecting the [long-term-care] facility service system, [it] was not able to establish a bed planning target." It recommended that the Ministry undertake further study and research to define a bed-planning target for long-term care. The steering committee also urged that its recommendations be considered in conjunction with recommendations regarding long-term care from the Health Services Restructuring Commission. In 1997, the Health Services Restructuring Commission released a discussion paper stating that by 2003, the province would need an additional 15,404 long-term-care beds. According to the Commission, these additional beds would result in an average bed ratio of 96.4 beds for every 1,000 individuals aged 75 and over.

In April 1998, Management Board of Cabinet approved in principle a plan from the Ministry requesting a total of 20,000 new beds to be built by the end of the 2005/06 fiscal year and the renovation of facilities with 13,583 existing long-term-care beds that did not meet current structural requirements. Ministry staff informed us that although there was no ministry standard for determining the future need for long-term-care beds, they were attempting to reach a target of 100 beds for every 1,000 individuals aged 75 and over. While the Ministry was unable to provide information on how it arrived at this target, it was consistent with the target recommended by the Health Services Restructuring Commission. By way of comparison, a ministry-initiated study indicated that in 2000, Alberta had a ratio of 109 beds per 1,000 individuals aged 75 and over, while Manitoba's planning guideline was 120 beds per 1,000 individuals aged 75 and over. It is important to note that the future need for long-term-care beds is affected by many factors, including the availability of home-care, chronic-care, and other services.

Based on the allocation of the approximately 20,000 new beds, by 2006 the projected bed ratios across provincial service areas (municipalities, districts, or counties) are expected to range from 88 to 138 beds for every 1,000 individuals aged 75 and older. Without the 20,000 new beds, projected bed ratios would have ranged from 38 to 138 beds for every 1,000 individuals aged 75 and over. Areas of the province most likely to exceed the target were generally above the target before the new beds were allocated and, accordingly, were generally not awarded new beds.

Recommendation

To help ensure that the need for long-term-care beds is met on a timely basis, the Ministry should:

- **conduct research to determine whether its target of 100 beds per 1,000 individuals aged 75 and over is appropriate; and**
- **develop a strategy to address the results of the research.**

Ministry Response

The Ministry is currently conducting policy work on a long-term strategy for long-term care. This strategy will look at the full range of services available to seniors and make recommendations about programmatic responses.

Recommendation

To help ensure surplus funding to long-term-care facilities is accurately identified and returned to the province on a timely basis, the Ministry should ensure that:

- **audited financial information provided by facilities meets ministry needs; and**
- **reconciliations are completed and surpluses recovered on a timely basis.**

Ministry Response

The Ministry will review the form and content of information currently collected from facilities to ensure that it is meeting ministry needs.

The Ministry will commit to sending out the 2001 and 2002 reconciliation reports to long-term-care facilities by December 31, 2002.

The Ministry has developed a consistent revenue/occupancy report. Beginning January 1, 2003, all seven regional offices will monitor and adjust cash flows as required.

THE LONG-TERM CARE REDEVELOPMENT PROJECT

Supply of Long-term-care Beds

In our 1995 Annual Report, we noted that, although it was aware of significant growth projected for the population aged 65 and over, the Ministry did not have a strategy for dealing with the anticipated increase in demand for long-term-care beds. We also noted that it did not have a systematic plan to determine where beds were most needed and to eliminate the wide variations in bed supply to make it equitable throughout the province.

In the fall of 1996, the Ministry established the Long-Term Care Bed Distribution and Needs Study Steering Committee (steering committee), made up of ministry staff and representatives from external associations. The steering committee was to review ways to equitably distribute long-term-care beds throughout the province and to suggest any policy or legislative changes to facilitate such a distribution.

In the introduction to its April 1997 report, the steering committee noted that provincially funded and regulated long-term-care beds had "for many years been inequitably distributed across Ontario both by region and within regions themselves. This distribution has occurred more by 'accident' than as a result of needs-based planning."

The steering committee indicated that "given the time parameters of the study and issues affecting the [long-term-care] facility service system, [it] was not able to establish a bed planning target." It recommended that the Ministry undertake further study and research to define a bed-planning target for long-term care. The steering committee also urged that its recommendations be considered in conjunction with recommendations regarding long-term care from the Health Services Restructuring Commission. In 1997, the Health Services Restructuring Commission released a discussion paper stating that by 2003, the province would need an additional 15,404 long-term-care beds. According to the Commission, these additional beds would result in an average bed ratio of 96.4 beds for every 1,000 individuals aged 75 and over.

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Based on the allocation of the approximately 20,000 new beds, by 2006 the projected bed ratios across provincial service areas (municipalities, districts, or counties) are expected to range from 88 to 138 beds for every 1,000 individuals aged 75 and older. Without the 20,000 new beds, projected bed ratios would have ranged from 38 to 138 beds for every 1,000 individuals aged 75 and over. Areas of the province most likely to exceed the target were generally above the target before the new beds were allocated and, accordingly, were generally not awarded new beds.

Recommendation

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- **conduct research to determine whether its target of 100 beds per 1,000 individuals aged 75 and over is appropriate; and**
- **develop a strategy to address the results of the research.**

Ministry Response

The Ministry is currently conducting policy work on a long-term strategy for long-term care. This strategy will look at the full range of services available to seniors and make recommendations about programmatic responses.

Capital Redevelopment Plan

In March 1999, the government announced that the expansion project for long-term-care beds was being accelerated and that the 20,000 new beds would be completed by 2004, bringing the total number of long-term-care beds to approximately 77,000. The 2006 deadline for renovating existing substandard facilities remained unchanged while the number of beds in substandard facilities was later revised from 13,583 to 15,835.

Contracts for the construction and operation of new facilities for the 20,000 new beds were primarily issued through three competitive selection processes in December 1998, March 1999, and May 2001. The 20,000 new beds included approximately 1,200 beds that had been awarded to operators in the 1980s and had not yet been developed. The regional offices handled the 1998 and 1999 selection processes based on common procedures established by the Ministry's head office. The third was undertaken by the newly established Long-Term Care Redevelopment Project office (Redevelopment Project office).

The Redevelopment Project office was established by the Ministry in May 2000 to oversee the operation of its bed-expansion project, including:

- developing and tracking the awarding of beds (including beds awarded in 1998 and 1999);
- reviewing and ranking the proposals in 2001;
- negotiating development contracts with successful applicants;
- reviewing and approving construction plans for new and replacement beds; and
- advising on and resolving municipal issues related to the construction of the new beds.

CAPITAL FUNDING

The Ministry is funding the construction of facilities for the 20,000 new beds and the renovation of facilities containing 15,835 beds by providing a per diem of up to $10.35 per bed. These payments are for 20 years and commence the day the bed is available for use and will amount up to approximately $75,000 for each new or renovated bed. Over 20 years, the capital costs to the Ministry will total up to $1.5 billion for the new beds and up to $1.2 billion for the renovated beds.

In addition, in January 2001, the Ministry revised its policy on preferred accommodation revenue. Previously, facilities shared preferred-accommodation revenue (that is, additional amounts charged for private or semi-private accommodation) with the province on an equal basis. All operators, including those with existing facilities that were not being renovated, would now be permitted to keep 100% of their preferred accommodation revenue. According to ministry documentation, "This funding is intended to supplement the $10.35 provided to facilities to support the cost of construction." Currently, this will provide at least $50 million of additional annual funding to long-term-care facilities.

We noted that the Ministry had not assigned to either the Redevelopment Project office or the regional offices the responsibility for obtaining actual expenditure reports for facilities that had been operating for more than one year to ensure that per diem construction funding was based on actual costs. In February 2002, the Ministry assigned that responsibility to the regional offices. However, by that time, one facility was more than two years late in submitting its report.

Recommendation

The Ministry should ensure that the per diem paid to long-term-care facilities for capital construction are consistent with the actual construction costs incurred.

Ministry Response

The Ministry's policy for funding construction costs of long-term-care facilities and development agreements require operators to submit audited statements of final capital costs. The Ministry has developed guidelines for consistent review and approval of these statements and will ensure they are appropriately implemented.

ALLOCATION OF NEW BEDS

In its presentation to Management Board of Cabinet, the Ministry stated that "all 20,000 new beds [were to be] awarded through a highest quality RFP process." At the time of our audit, new beds had been allocated as outlined in the following table.

Beds Awarded through Competitive Selection Processes, 1998–2001

Year of Allocation	# of Beds Awarded	% of Total Beds Awarded
1998	6,157	34
1999	5,347	29
2001	6,682*	37
Total	**18,186**	**100**

* includes 1,065 beds returned by successful applicants and subsequently re-allocated to other applicants, and 704 beds allocated through subsequent competitive processes to meet needs in under-serviced areas

Source of data: Ministry of Health and Long-Term Care

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Source of data: Ministry of Health and Long-Term Care

In the 1998 process, beds were to be awarded to the applicants who received the highest rankings after taking into account the Ministry's "policy decisions about appropriate geographical distribution of long-term-care facilities in each service area of the province of Ontario." The Ministry could also require as a condition of award that a successful applicant develop beds in a different geographical location than described in the applicant's proposal but within the same service area. We reviewed the 1998 awards and found that, generally, beds were awarded in accordance with the stated selection criteria. However, where there were exceptions, the Ministry was not able to locate the supporting documentation in all cases.

In the 1999 process, in addition to the selection criteria used in 1998, the Ministry reserved the right to decline awards where there would be an unacceptable concentration of ownership of long-term care beds in the province or where applicants who were successful in four or more proposals could not demonstrate the financial and organizational capacity to develop that many sites. Based on our review of available documentation, successful applicants were selected in accordance with the stated selection process. In all cases where the highest scorer was not selected, there were multiple applicants who were perceived not to have the organizational or financial capacity to develop all of the beds that they could be awarded. External consultants hired by the Ministry performed the multiple applicant analyses and provided advice and recommendations to the Ministry.

A new evaluation process was used in 2001 and the Redevelopment Project office hired external consultants to evaluate the proposals. The selection of successful applicants was not based on the highest ranked proposals. Instead, scores were used to group applicants within service areas into three "bands". The first band included the top-ranked applicants. As one would expect, virtually all applicants in the first band received awards. The second band included all other applicants who scored over 65%. The applicants within this band were considered equivalent in terms of the quality and merits of their applications. Preference was given to applicants adding new beds to structurally non-compliant facilities and to applicants who proposed to build in preferred locations within service areas. As was the case in 1999, the Ministry reserved the right to consider the financial and organizational capacity of applicants who were successful in a number of proposals. The third band was made up of applicants who scored less than 65%, and, therefore, were not eligible for selection.

According to the Ministry, approximately 900 new beds were awarded outside the regular processes to:

- comply with recommendations pertaining to hospitals that were made by the Health Services Restructuring Commission; and
- improve the economic viability of successful applicants from earlier RFPs that requested additional beds.

Subsequent to the 2001 process, competitive selection processes were instituted in three service areas to award beds that either had been returned or were not initially awarded because of insufficient interest in 2001. Unlike the other three processes, where proposals were scored and ranked, the proposals for two of the service areas were evaluated based on a comparison of the positive and negative aspects of the proposals. The process for the other service area was still ongoing when we completed our audit work in this area.

Recommendation

To help demonstrate that awards for new long-term-care beds are based on a fair and open process that is consistently and objectively applied, the Ministry should ensure that the justification for all decisions is properly documented.

Ministry Response

The Ministry will do its best to ensure proper documentation of all decisions.

Structural Compliance

In our 1995 Annual Report, we noted that 68 nursing homes with approximately 7,000 beds were so deficient they required major renovations or complete reconstruction to meet existing minimum structural and environmental standards. The Ministry is addressing the need to upgrade certain facilities through the Long-Term Care Redevelopment Project, which includes funding for the renovation of substandard facilities containing 15,835 beds.

In 1995, we also noted that there were no comparable regulatory standards for homes for the aged and that the Ministry had not assessed the structural and environmental adequacy of these facilities. We recommended that the Ministry establish a plan to replace facilities that cannot meet structural and environmental requirements and that homes for the aged be assessed for structural and environmental deficiencies.

In April 1998, the Ministry introduced new standards that would be applicable to all long-term-care facilities. Ministry staff classified all facilities into one of four categories:

- class A facilities that met 1998 design standards;
- class B and C facilities that did not meet the 1998 standards but did meet the 1972 regulated standards; and
- class D facilities that met neither the 1998 nor the 1972 standards.

These classifications were primarily based on the review of building plans on file with the Ministry and the results of structural compliance assessments of nursing homes completed in 1984/85. However, ministry staff did not have building plans for municipal or charitable homes. Facilities were permitted to appeal their classifications. Ministry staff, using a standardized survey template, reassessed these facilities, which resulted in a change of classification for a number of facilities.

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In April 1998, the Ministry introduced new standards that would be applicable to all long-term-care facilities. Ministry staff classified all facilities into one of four categories:

- class A facilities that met 1998 design standards;
- class B and C facilities that did not meet the 1998 standards but did meet the 1972 regulated standards; and
- class D facilities that met neither the 1998 nor the 1972 standards.

These classifications were primarily based on the review of building plans on file with the Ministry and the results of structural compliance assessments of nursing homes completed in 1984/85. However, ministry staff did not have building plans for municipal or charitable homes. Facilities were permitted to appeal their classifications. Ministry staff, using a standardized survey template, reassessed these facilities, which resulted in a change of classification for a number of facilities.

At the request of the Ontario Association of Non-Profit Homes and Services for Seniors, the Ministry hired a consultant to conduct on-site reviews of the approximately 320 facilities that did not appeal their classifications. While the consultant identified 32 facilities that should have had a different classification, the Ministry adjusted the classification of only three facilities. The other 29 included 10 facilities containing 1,515 beds that the consultant stated should be class D rather than class C facilities and, therefore, should be renovated. Such renovations would normally receive financial support from the Ministry.

By the end of 2001, only 42% of class D facility operators had agreed to rebuild their facilities to meet 1998 design standards. These operators would be eligible for a per diem premium of up to $10.35 per bed for 20 years. In December 2001, the Ministry introduced a new program to encourage more operators of class D facilities to commit to renovation. Class D facility operators now could also:

- retrofit the facility to meet 1998 core design criteria, allowing design flexibility to reduce costs and enable better use of existing sites and structures. Depending on the extent to which the design varied from 1998 standards, operators would be eligible for a per diem premium of between $7.00 and $10.35 per bed for 20 years; or
- upgrade the facility to meet all the class C structural classification criteria or spend at least $3,500 per bed. The operator would then be entitled to the structural compliance premium of $1.00 per bed per day.

In addition, these operators would be eligible for additional financial support to help with unavoidable costs unique to redevelopment and retrofit projects, such as temporary facility leasing costs, temporary storage and operational costs, and fixed operating costs. Eligibility would be assessed on a case-by-case basis. By the time we completed our audit, the Ministry had received commitments from all of the operators of class D facilities to rebuild, retrofit, or upgrade their facilities.

Class A, B, and C facilities are paid a structural compliance per diem premium, intended as compensation for previously completed structural improvements. Higher amounts are paid to facilities that more closely meet the 1998 design standards and have not received grants from the province to construct their facilities.

Per Diem Structural Compliance Premiums, 2002

Facility Classification	Premium for Nursing Homes ($)	Premium for Charitable and Municipal Homes ($)	Premium for Upgraded Class D Facility ($)
A	5.00	1.50	N/A
B*	2.50	1.25	N/A
C*	1.00	0.50	1.00

* According to ministry policy, class B and class C facilities are not eligible for redevelopment funding and cannot improve their classifications in order to receive a higher premium even if they pay for their own upgrades.

Source of data: Ministry of Health and Long-Term Care

With respect to structural compliance premiums, we noted the following:

- Because the province had funded 50% of the original construction costs of charitable and municipal homes, per diem premiums for these facilities were apparently reduced by 50%; but premiums were not reduced for nursing homes that, prior to 1996, received provincial funding through debt servicing and compliance premiums to partially compensate them for the cost of construction.
- Ministry staff could not explain the apparent inequity whereby class A charitable and municipal homes receive only 30% of the premiums received by nursing homes whereas class B and C facilities receive 50%.
- All class D facilities that upgrade to class C were entitled to the full $1.00 premium, even though the majority of class D facilities were either charitable or municipal homes and would otherwise only be entitled to a premium of $.50. The Ministry could not explain the basis for this premium.

Recommendation

To help ensure that funding for structural compliance is fair and to encourage facilities to meet the new design standards, the Ministry should:

- **ensure all facilities are properly classified;**
- **review the structural compliance premiums to ensure that they are equitable and are achieving their intent; and**
- **consider providing incentives for facilities to upgrade their classifications.**

Ministry Response

The Ministry is currently conducting policy work on asset management and facility renewal. This policy work will give consideration to the Provincial Auditor's recommendations.

PERFORMANCE MEASURES

According to the Management Board of Cabinet's minutes for May 17, 2000, "the Ministry needs to establish acceptable outcome measures and suitable commitments to better reflect its major activities/programs and contribution to core business outcomes." For 2000/01, the only performance measure in the Ministry's Business Plan for long-term-care facilities was to increase the number of long-term-care beds.

The 2001/02 Business Plan stated that the goal of the Integrated Health Care Programs Division was to ensure that "the needs of Ontario's changing population are anticipated and appropriate services and technology are available throughout people's lives, close to their homes in their chosen communities" and included the following performance measures:

At the request of the Ontario Association of Non-Profit Homes and Services for Seniors, the Ministry hired a consultant to conduct on-site reviews of the approximately 320 facilities that did not appeal their classifications. While the consultant identified 32 facilities that should have had a different classification, the Ministry adjusted the classification of only three facilities. The other 29 included 10 facilities containing 1,515 beds that the consultant stated should be class D rather than class C facilities and, therefore, should be renovated. Such renovations would normally receive financial support from the Ministry.

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The 2001/02 Business Plan stated that the goal of the Integrated Health Care Programs Division was to ensure that "the needs of Ontario's changing population are anticipated and appropriate services and technology are available throughout people's lives, close to their homes in their chosen communities" and included the following performance measures:

> Residents of long-term-care facilities receiving quality care programs and services in a safe and home-like environment in accordance with provincial legislation, standards, and policies as shown by:
>
> - results of annual compliance reviews—100% of facilities inspected annually; and
> - redevelopment of existing [class D facilities] so that they meet or exceed current design standards.

However, the Business Plan indicated no commitments or measures to address the appropriateness of services provided, such as the quality of care received by residents, or to determine whether programs offered by the facilities were meeting the needs of the residents.

Senior ministry officials advised us that they recognize there are deficiencies in their assessment of program efficiency and effectiveness and are considering the implementation of the Resident Assessment Instrument (RAI). The RAI is currently used by all U.S. government-sponsored nursing homes as a uniform, standardized, comprehensive assessment instrument for all long-term-care residents in an effort to address concerns about basic levels of care. The RAI consists of a Minimum Data Set (MDS) and a series of resident assessment protocols describing how to use the MDS data for care planning. Quality indicators can be derived from the RAI to help identify potential problem areas for further review and investigation and may enable users to compare care among facilities. These indicators help identify the prevalence of inappropriate conditions. Ministry staff informed us that its level-of-care classification system currently collects about 60 pieces of data on each resident. Using MDS, over 400 pieces of information could be collected for each resident. Ministry staff believe that MDS would provide information that could be used to develop benchmarks and identify quality improvements.

In October 2000, a review committee established by the Ministry recommended that the Ministry pilot the implementation of RAI at 40 facilities and conduct an evaluation prior to full implementation. The committee also recommended that the Ministry develop a funding methodology based on MDS and explore a partnership with the home-care sector to develop a common assessment tool. However, at the time of our audit, no progress had been made in implementing a pilot project.

Recommendation

To provide better accountability to the public and to help ensure that services of long-term-care facilities are provided efficiently and effectively, the Ministry should:

- **establish program goals, performance measures, and benchmarks and use them to assess performance;**
- **take corrective action where necessary; and**
- **report publicly on performance achieved.**

Ministry Response

Comprehensive annual reports from the long-term-care facilities' compliance reviews are posted at the facilities for the public to see and are available to interested parties.

It is the Ministry's intention to move to a system that:

- ***collects data and organizes the information to develop individualized resident care plans (this will reduce nursing time spent documenting and increase time spent providing care);***
- ***uses the data to develop risk-weighted quality indicators (quality indicators will enable benchmarks to be set that facilities must meet); and***
- ***compares facilities using the benchmark data. The Ministry will take corrective action where necessary.***

When the new system is fully implemented, the Ministry will make available as much information as possible on comparative indicators.

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MANAGEMENT BOARD SECRETARIAT

3.05–Electronic Service Delivery

BACKGROUND

Over the past decade, many governments, including Ontario, have increasingly used electronic means to provide information about government services to individuals and businesses, as well as to deliver some of those services. This method of providing services is known as electronic service delivery (ESD).

Public demand for government services delivered electronically is strong and growing. A recent study indicates that 75% of Canadians have access to the Internet at home, school, or the office. More than 80% of respondents to a recent private-sector survey of Canadian e-commerce users indicated they wanted to do such things as renew their driver's licence, complete government forms, and search for government program information on-line. In fact, 44% of survey respondents indicated that access to government services was one of their top six reasons for using the Internet—almost as many as those citing on-line banking and investing.

In February 1998, the Management Board of Cabinet approved a new information and information technology (I&IT) strategy that recognized I&IT as a key enabler in improving the delivery of public services. Partly in response to increased public demand for ESD, this strategy included a proactive move towards "e-government" in Ontario. E-government is the comprehensive application of I&IT to the workings of government.

Ontario's vision for e-government encompasses various components, including the streamlining and automating of processes whereby government decisions are made and programs are delivered; the improvement of large public-sector programs in the health, justice, resource management, transportation, and education sectors; and the facilitating of two-way citizen engagement or "digital democracy". However, the component of e-government that affects the public most directly is ESD. Through ESD, the government is organizing and integrating services through such electronic means as call centres, interactive voice response systems, Web sites, e-mail, fax, CD-ROM, public access terminals and kiosks, and electronic payment systems.

Currently, a number of Ontario government programs are provided through electronic means. For instance:

- Through approximately 70 kiosks installed at various locations throughout the province, individuals can obtain renewal stickers for their vehicle licence plates, change their address for health and transportation programs, and order fishing and hunting licences.
- Through approximately 140 self-help workstations located in customer service centres, businesses and individuals can conduct business-name searches, register their business names, apply for retail sales tax vendor permits, and set up accounts for employer health tax and with the Workplace Safety and Insurance Board.
- Via Internet sites, individuals can access information about government services offered; order publications; request birth, death, or marriage forms; file articles of incorporation and submit annual corporate information returns; apply for student loans; reserve camping park space; check traffic conditions; or access Ontario legislation.

The government Internet site (www.gov.on.ca)—which was launched in 1995 to provide comprehensive information about government programs and to act as a central portal for citizens to access government on-line services—was redesigned in the fall of 2001 and receives some 500,000 visits per month.

To accelerate the move to ESD, in June 2000, the Management Board of Cabinet approved a government-wide ESD strategy (titled "The Corporate Strategy for Direct Electronic Service Delivery"). The ESD strategy is aimed at improving the quality of service delivery to Ontarians and businesses by providing client-focused, integrated, accessible, and cost-effective government services electronically. In a September 2000 speech, the Chair of the Management Board of Cabinet announced the government's ESD commitment to: "By 2003, increase Ontarians' satisfaction with government services by becoming a world leader in delivering services on-line." The government further plans by that time to have over 80% of the services it delivers available to individuals through electronic means. The greatest growth area is expected to be in the provision of more services through Web sites.

Management Board Secretariat (MBS) is responsible for the implementation of the government's overall I&IT strategy. Within MBS, the strategy for ESD is the responsibility of the E-government Branch (Branch) of the Office of the Corporate Chief Information Officer.

The Management Board of Cabinet approved a performance management framework to track progress in fulfilling the government's ESD strategy. The framework includes three elements and related commitments for 2001/02 and 2003, as illustrated in the following table.

Government's ESD Commitments for 2001/02 and 2003

Target Element	Commitment for 2001/02	Commitment for 2003
Increasing Ontarians' satisfaction with government services	50% of survey respondents would be satisfied with services delivered electronically.	75% of survey respondents would be satisfied with services delivered electronically.
Becoming a world leader in delivering services electronically	Ontario would be recognized consistently in the top 10 jurisdictions in the world for its ESD services.	Ontario would be recognized consistently in the top five jurisdictions in the world for its ESD services.
Providing better government by improving public service efficiency	75% of new ESD projects would be "leveraging" a common I&IT infrastructure.	100% of new ESD projects would be "leveraging" a common I&IT infrastructure.

Source of data: Management Board Secretariat

While individual ministries continue to be responsible for the delivery of specific ESD initiatives related to their program areas, a number of ESD committees with ministerial participation provide leadership for the government's overall ESD effort and ensure co-ordination of activities across participating ministries:

- The Information and Information Technology Directions Committee oversees the government's I&IT agenda and provides strategic leadership for e-government initiatives. Chairing this committee is the Secretary of the Management Board of Cabinet, with members representing the Deputy Minister level throughout the government.
- The Information and Technology Executive Leadership Committee works to ensure that Ontario makes the most appropriate I&IT investments. Chairing the committee is the Corporate Chief Information Officer with members representing the Chief Information Officer level from the corporate organization and the I&IT clusters.
- The e-Government Leadership Committee strategically co-ordinates the e-government initiative. The Corporate Chief Information Officer chairs the committee with membership representing mainly the Assistant Deputy Minister level.
- The Chair's Advisory Council on e-Government provides advice to the Chair of the Management Board of Cabinet on the transformation of government through the use of I&IT. The Corporate Chief Information Officer is the chair and membership is from across the public and private sectors.

AUDIT OBJECTIVES AND SCOPE

The objectives of our audit of electronic service delivery were to assess the extent to which:

- Management Board Secretariat (MBS) has systems and procedures in place to continuously monitor, measure and report on the government's progress towards meeting its objective of increasing customer satisfaction by becoming a world leader in the provision of electronic services by 2003; and
- ministries are developing and delivering electronic services in accordance with best practices and with due regard for economy and efficiency.

We identified audit criteria that would be used to address our audit objectives. These were reviewed and accepted by senior officials at MBS and further reviewed with the ministries visited. Our audit work covered the period to March 31, 2002.

The scope of our audit included discussions with staff and a review and analysis of relevant policies, procedures, and related documents at MBS and at the ministries of Consumer and Business Services; Training, Colleges and Universities; and Transportation—three of the ministries currently delivering major ESD projects.

Our audit was performed in accordance with the standards for assurance engagements, encompassing value for money and compliance, established by the Canadian Institute of Chartered Accountants, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

With the exception of work done by Internal Audit Services at the Ministry of Consumer and Business Services, which assessed the evaluation process used for one significant consulting contract, we did not rely on the work of internal audit because there had been no recent reports on ESD projects.

OVERALL AUDIT CONCLUSIONS

The government has set ambitious targets for ESD, and while it has made significant strides in implementing ESD to date, we concluded that it will likely fall short of meeting its ESD implementation targets. In our view, a number of issues need to be addressed to accelerate the pace of ESD implementation and to ensure that ESD investments provide value for money. As well, a more proactive and hands-on central management of the ESD initiative is needed. For example:

- Ministry quarterly reports on the delivery of ESD projects showed that 52% of ministries' ESD projects were behind target in June 2001, in that they had either not yet been initiated as planned or had been delayed or deferred in some manner. By December 2001 even fewer ESD projects were on target.
- The E-government Branch's ability to conduct meaningful analysis of the current status of projects vis-a-vis those originally planned was impaired. Projects had been dropped, delayed, deferred, redefined, or combined in a myriad of ways, which can happen for valid reasons. However, the Branch did not have sufficient documentation of the

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reasons for many of these changes. In addition, ministry quarterly reports were being provided six months behind schedule.

- The Branch is responsible for the government-wide ESD plan, but its authority to deliver on this plan is limited to providing senior management with analysis of ministry progress to date and making recommendations as to where corrective action or additional resources may be needed. However, even in this capacity, the Branch's reporting to senior management to date has not been timely and has been limited and lacking in recommendations for future action.

  As well, while it originally intended to provide the Chair of Management Board of Cabinet with a progress report in spring or summer 2001, at the time of our audit, the Branch had not yet provided this report.

- The funding needed to deliver ESD projects was not addressed when the ESD strategy was approved. Lack of resources was the reason most often cited by ministries for their inability to deliver on planned projects.

- The Branch has set 2001/02 and 2003 performance targets for customer satisfaction, world leadership, and ESD project leveraging; and while a recent survey of customers using existing ESD services indicates that the 2001/02 customer satisfaction targets are being achieved, the Branch does not have conclusive evidence that it is meeting its goal of Ontario being among the world's 10 best jurisdictions in delivering electronic services, nor is there evidence that ESD projects are integrated, leverage a common I&IT infrastructure, and incorporate common components.

  In addition, ESD performance measurement efforts to date have been poorly co-ordinated between the Branch and the ministries delivering ESD programs, and operational or efficiency improvement measures, or assessments of the economic costs and benefits of ESD projects, remain to be developed.

- Communications efforts to promote ESD have been insufficient to increase public awareness and usage of the services delivered electronically. Usage of some ESD services are significantly below target levels.

We reviewed four high-impact service-delivery projects at the ministries visited and noted that, while the ministries had implemented a number of good project management practices on these priority projects, with respect to security practices and service availability, there was some room for improvement.

Overall Management Board Response

Ontario has embarked on an ambitious journey towards electronic service delivery (ESD) in the context of its overall e-government agenda. Management Board Secretariat (MBS), in co-operation with ministries and other partners, is moving forward simultaneously in a number of areas to

increase satisfaction with government services by becoming a world leader in delivering services electronically.

We look to this audit as a means of identifying opportunities to employ best practices to accelerate the pace of ESD implementation and ensure that the government meets its 2003 target. MBS and the three line ministries involved in the audit have already taken action on many of the Provincial Auditor's recommendations and are satisfied that we will achieve our 2003 target.

We are pleased that the audit report acknowledges that significant strides have been made and appreciate the advice that the Provincial Auditor has provided as we undertake this large-scale transformation.

DETAILED AUDIT OBSERVATIONS

PROGRESS REPORTING

As indicated earlier, the government's ESD strategy is directed towards achieving stated targets by 2003. With a view to meeting these targets, all ministries submitted ESD action plans in fall 2000 and were to subsequently report quarterly on their progress against these plans. The ministry action plans set out planned improvements over the two-and-a-half year period from September 2000 to April 2003. The plans formed the basis of MBS's corporate ESD plan (titled "Enterprise ESD Strategy and Action Plan"), which was approved by the Management Board of Cabinet in February 2001. MBS's analysis at that time indicated that 58% of government services were then available through at least one electronic mean and that if all planned service improvements were executed this percentage would grow to 83% by 2003.

Ministry Reports

While considerable work went into the preparation of ministry action plans and the overall corporate ESD plan, the ministry quarterly progress reports that had been received at the time of our audit indicated that actual progress against these plans has been disappointing and that the inventory of projects being tracked has dropped significantly without an explanation for this drop.

Ministries were experiencing significant difficulties in completing their ESD projects. Specifically, the first reports indicated that by June 2001, 52% of projects reported on had either not been initiated as planned or were behind schedule vis-à-vis the timeframes envisaged in the original plans. The second reports indicate even further deterioration in progress as of December 2001.

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We also noted that the project information in these reports did not correspond with that reported on in the original project plans. The reports had not been assessed with respect to the drop in the number of projects being reported on. While discussion with staff at the Branch and our own analysis indicated that many of these adjustments relate to the combining of projects that were originally considered separate initiatives—and some would appear to be due to successfully completed projects that are no longer being reported—in many cases it would appear to be the result of planned projects simply being dropped from the reports with no reasons being provided.

Although meeting ESD project commitments is the responsibility of the applicable Deputy Minister, we also noted that MBS had not made any formal inquiries to the ministries as to what corrective actions, if any, had been developed to deal with any of the delayed projects.

Reporting Cycle

Given the ambitious ESD performance targets for 2003, the ability to monitor project progress on a timely basis is critical. However, the reporting cycle has been subject to considerable slippage, which has contributed to the difficulty in pro-actively addressing project delays. Initially, ministries were to submit their first quarterly report in April 2001. However, this initial reporting requirement was pushed back twice such that it was not until the fall of 2001 that ministries began submitting their first reports.

Many of these initial reports were found to be inadequate, and the Branch continued working with ministries throughout the fall and winter of 2001 to clarify their information requirements and ensure submitted reports contained all the necessary data. As of March 2002, two ministries had still not submitted their first quarterly reports.

Because of the difficulties in completing the first quarterly report, the original deadline for the second quarterly report was abandoned and a due date of March 5, 2002 was set for the second report. So, while it was anticipated that ministry reports would be prepared every three months, in the span of almost a year (starting from the originally scheduled due date of April 2001 for the first report), only two quarterly reports were submitted.

The Branch is now considering changing the requirement for future reports such that they would have to be submitted only every six months rather than every three months. While this may be more convenient for ministries, it will certainly impair the Branch's ability to learn of and react on a timely basis to any project slippages or other problems.

Reporting of Progress to Senior Management

The reporting difficulties outlined above have contributed to a further delay in providing senior management at MBS and at ESD ministries with meaningful summary analysis of progress to date. For instance:

- Originally, the Branch planned to provide a summary of ministry progress to the Chair of Management Board in the spring or summer of 2001, shortly after receiving the first ministry reports. At the end of our audit, in March 2002, only a draft of this progress report had been prepared, and it had yet to be finalized or submitted to the Chair. Furthermore, this draft contained status information only, with no recommendations for action or measures to deal with any of the delayed projects.
- Although results of the first draft progress report were presented in December of 2001 to the e-Government Leadership Committee, the committee itself had difficulty assessing the results and indicated that more analysis was needed.
- At the end of our audit, the Branch had not as yet produced any analysis or report on the results of the second ministry quarterly reports.

Without ongoing and timely review of progress to date, corrective action cannot be initiated at the senior level. Given that the Branch has no effective means to deliver on the government's mandate but must work through the ministries actually responsible for the provision of ESD services, such reporting is one of the few tools it has available to push the ESD initiative forward. That is, while the Branch does not have the power to enforce or fund ministry initiatives, it is poised to assess and communicate progress and problems to committees and senior ministry management, which can in turn initiate corrective action. However, as outlined above, the Branch has provided little progress reporting to date.

Recommendation

To ensure that ministry progress in completing improvement projects for electronic service delivery (ESD) is adequately assessed and timely corrective action is initiated where appropriate, Management Board Secretariat should:

- **require that all ministries submit their required reports on time and formally follow up when they fail to do so;**
- **track the service improvements identified in the original ministry ESD plans and compare them to expected and actual results so that a complete assessment of ESD accomplishments vis-à-vis original targets can be made;**
- **consider initiating formal follow-up procedures and asking ministries who are significantly behind target to develop corrective action plans; and**
- **analyze all submitted reports and provide a summary analysis with recommendations on a timely basis to the Chair of Management Board of Cabinet and appropriate ESD advisory committees.**

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Management Board Response

Based on the Provincial Auditor's findings and our own consultations with ministries, Management Board Secretariat (MBS) is reviewing the frequency of and approach to ministry ESD progress reporting to ensure we have timely notice of issues and can take steps centrally to remove horizontal barriers. We will streamline the reporting process to focus on meaningful indicators and critical deliverables. The Branch will escalate delays in progress reporting to the Deputy Minister level and identify significant changes in ministry ESD plans to the Chair of the Management Board of Cabinet. Cabinet Office has also established performance plan commitments for Deputy Ministers as a means of monitoring achievement of ministry ESD commitments. A report was provided to the Chair of the Management Board of Cabinet in July 2002 and covered the ministries' first and second progress reports.

It is important that ministries continuously evolve and refine their ESD plans. Therefore progress towards the strategic ESD target cannot be derived simply by tracking the progress of the initial set of projects included in plans submitted in October 2000.

For the 2003/04 planning year and beyond, in addition to tracking progress on critical deliverables, MBS will also assess ministry progress in terms of the approved performance measures. Assessing actual performance outcomes against key performance measures will provide us with a direct indication of progress towards the target of increasing client satisfaction. In addition, frequent assessment of critical ministry projects against planned milestones will serve as an early warning signal to MBS regarding ESD progress.

THE FUNDING OF INITIATIVES

Unlike other government initiatives, where typically the initiative and its required funding are approved concurrently, the government's planned ESD initiative was approved without addressing the funding needed to support it. In fact, in our review of the Branch's development of the government's ESD strategy, we noted little consideration of funding needs, resource planning, or estimation of total expected ESD costs. We were informed by branch management that a separate funding envelope for ESD was not considered: funding for ESD would be assessed and assigned in the context of overall business practices.

The separation of the strategy from its funding requirements concerned members of ESD committees. For example, minutes of a May 2000 meeting of the I&IT Directions Committee reflect members' concerns about the lack of funding details. In reviewing the upcoming submission to the Management Board of Cabinet for approval of the ESD

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The separation of the strategy from its funding requirements concerned members of ESD committees. For example, minutes of a May 2000 meeting of the I&IT Directions Committee reflect members' concerns about the lack of funding details. In reviewing the upcoming submission to the Management Board of Cabinet for approval of the ESD strategy, the committee indicated there was a need to provide estimates of the financial requirements of the strategy decision to the Management Board of Cabinet.

Despite such concerns, this work was not completed at the time the ESD strategy was presented to and approved by the Management Board of Cabinet in June 2000. In fact, the first serious attempt to identify ESD funding requirements only occurred in fall 2000 when ministries prepared ESD action plans. The ESD strategy and 2003 targets were thus approved in June 2000 without full knowledge of what funding would be required to meet them.

The October 2000 ministry action plans identified 588 service areas and outlined funding requests for electronic improvements to most of these services—requests for $66 million for 2001/02, and $187 million over the four-year period to 2005. As mentioned earlier, these plans formed the basis of the corporate ESD plan approved by the Management Board of Cabinet in February 2001. However, consistent with the view that funding would be dealt with as part of the regular business planning process, the Management Board of Cabinet approved the corporate plan but did not approve the funding needed to execute it.

There has been one exception to the overall funding approach for ESD initiatives when ministries were afforded the opportunity to request central, dedicated funding. In April 2001, after reviewing 135 requests, the analysis and recommendations provided by the Branch to Cabinet resulted in central, dedicated funding of $15.2 million for 14 ESD projects for the 2001/02 fiscal year.

Our review of ESD committee minutes indicated that members continued to raise funding concerns, with doubts being expressed about the ability to meet the government's ESD goals under existing funding conditions. With respect to the 14 ESD projects discussed above, we noted that members of the I&IT Directions Committee expressed concern about the relatively low number of initiatives going to the Management Board of Cabinet for approval of specific ESD funding. While the minutes further indicated that a review of the business cases for other projects was underway, which might lead to further specific funding requests, we noted that at the time of our audit there had been no other centrally led ESD funding approvals.

We noted that, in contrast to the Ontario government, the federal government, in its *2000 Budget*, specifically committed $160 million over two years to design and launch its on-line strategy. The federal government committed an additional $600 million in its *2001 Budget* over the following four years to complete the implementation of its on-line strategy by 2005. This funding commitment may have contributed to the federal government's current success in international rankings of on-line services. For instance, Accenture—a major international consulting firm—has ranked the Canadian federal government number one in the world for the last two years in the provision of on-line services and in the area of e-government leadership.

In Ontario, our view is that the lack of an overall funding commitment in support of the approved ESD strategy has contributed to the current low rate of progress vis-à-vis ministry action plans. We noted that, at the time of our audit, 13 of the 14 (93%) ESD projects that obtained specific funding were on target for successful project completion. This contrasts sharply with the much lower, current on-target rate for remaining ESD projects. In fact, we noted that in ministry progress reports, where a rationale is provided to account for delays, the lack of resources is a prime reason cited.

We noted that the Chair's Advisory Council on e-Government also had concerns about the government's approach to funding ESD initiatives. At its second meeting, the Council discussed current funding mechanisms—where estimates and funding allocations are determined on a program-by-program basis—and noted that they are not suited to large, cross-jurisdictional IT initiatives, which are integrative in nature rather than program specific.

Given the current constrained funding environment and the large number of projects that are behind schedule, we believe it is essential that ESD projects be prioritized on a government-wide basis to ensure the most strategic and value-added ESD initiatives from the public's perspective are identified. Under the current approach, the risk is lower-priority ESD projects may get funded over higher-priority projects depending on the availability of funds within each ministry.

Recommendation

To ensure appropriate funding of electronic service delivery (ESD) initiatives, Management Board Secretariat should:

- **review the current funding mechanisms for ESD initiatives to determine if alternatives to the current funding model should be considered;**
- **ensure funding provided is directed at the most strategic initiatives from a government-wide perspective; and**
- **consider developing a proposal to centrally fund the delayed ESD projects that are most critical to improving program delivery.**

Management Board Response

When the ESD Strategy was developed, various funding models were considered, and Management Board Secretariat (MBS) chose not to establish a central fund for ESD on the basis that, to the greatest extent possible, decisions on ESD should be taken in the context of all business priorities. In addition to the 14 initiatives funded through the 2001/02 business planning process, the Management Board of Cabinet approved in May 2002 $16 million more for 19 strategic ESD projects for the 2002/03 fiscal year. MBS will again review funding requests for ESD projects as part of the 2003/04 planning and allocations cycle. MBS is committed to exploring alternate funding models, and monitoring the effectiveness of models in use in other jurisdictions.

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- **consider developing a proposal to centrally fund the delayed ESD projects that are most critical to improving program delivery.**

Management Board Response

When the ESD Strategy was developed, various funding models were considered, and Management Board Secretariat (MBS) chose not to establish a central fund for ESD on the basis that, to the greatest extent possible, decisions on ESD should be taken in the context of all business priorities. In addition to the 14 initiatives funded through the 2001/02 business planning process, the Management Board of Cabinet approved in May 2002 $16 million more for 19 strategic ESD projects for the 2002/03 fiscal year. MBS will again review funding requests for ESD projects as part of the 2003/04 planning and allocations cycle. MBS is committed to exploring alternate funding models, and monitoring the effectiveness of models in use in other jurisdictions.

PERFORMANCE MEASUREMENT

As mentioned earlier, the Branch's formal performance measurement framework for ESD currently incorporates three target elements and, to its credit, specific commitments to measure progress towards the achievement of these targets (see table on page 142). The current targets relate to customer satisfaction, world leadership status, and the "leveraging" of a common I&IT infrastructure. As part of our review of ESD performance measurement, we assessed progress to date on meeting these targets.

Customer Satisfaction

In early 2002, the Branch, in the context of the framework approved by MBC, commissioned a comprehensive customer service satisfaction survey that measured, among other things, the satisfaction levels of over 1,000 recent users of government ESD services. Input was sought from both business clients and the general public. The results indicated that current satisfaction levels with Ontario's ESD services were well over the targeted 50% threshold. Generally, users who accessed Ontario programs via electronic means were happy with the service they received.

We concluded that the Branch had sufficient evidence to demonstrate that it had exceeded its 2001/02 commitment for customer satisfaction.

World Leadership Status

Ontario has taken great strides over the last several years in establishing and further developing a number of key ESD initiatives. As well, the Branch has been instrumental in developing legislation and policies that will support ESD by providing needed frameworks—for instance, for security and privacy requirements. Indeed, our audit work, and the work of others, indicate that Ontario currently offers a world-class selection of electronic services and has established a solid framework to support them.

However, we do not believe that the Branch has clearly demonstrated that Ontario has met its 2001/02 target of being among the top 10 ESD service providers in the world. While a number of studies have favourably compared the federal government's on-line offerings with those of other international jurisdictions, the Ontario government cannot, in our view, infer achievement of its targets from such federal benchmarking studies.

In the course of our work, we examined comparative studies and performed our own comparisons of on-line ESD services offered in Ontario and other Canadian provinces, as well as selected international jurisdictions. It is important to note that studies to date have only dealt with on-line services. ESD includes many other electronic means, including kiosks, public self-help workstations, call centres, and interactive voice response systems. We noted that Ontario has invested significantly in all of these technologies as part of its ESD strategy, but because of insufficient data from other jurisdictions, we limited our comparative assessment to on-line offerings.

A 2001 government-funded ESD study of all provincial jurisdictions in Canada ranked Ontario second behind British Columbia. Our own comparison of four provinces indicated that Ontario compared favourably with these jurisdictions, but also ranked second behind British Columbia, primarily because of the much greater number of on-line services BC offered. Our assessment took into account the number, breadth, and depth of services offered; transactional capabilities; and user friendliness.

However, Ontario's goal is to be among the top 10 (by 2001/02) and then top 5 (by 2003) jurisdictions, not in Canada, but in the world. In our view, many other international jurisdictions currently offer on-line services that are superior to Ontario's. In an annual comparative study of government on-line services by the consulting firm Accenture, Hong Kong was ranked tenth worldwide in 2001 and Ireland was ranked tenth in 2002. We therefore compared on-line services offered in Ontario to those offered in these and two other jurisdictions that had garnered recognition for the quality of their on-line services. While cross-border comparisons are more difficult than interprovincial comparisons because of the global differences in government structures and mandates, we focussed on 18 public services common to all jurisdictions, including birth and death certification, student assistance, driver licensing, vehicle/plate renewal, and business registration services. We ranked Ontario fourth out of five in this assessment, behind both Hong Kong and Ireland. Extrapolating from this additional data, it is questionable whether Ontario is currently in the top 10 worldwide in the delivery of on-line services.

In terms of Ontario's potential for improvement, we noted that the government-funded consulting study found that of Ontario's 467 on-line services, 60% were simply informational and only 6% had transactional applications available. In this respect, the study further indicated that 86% (or over 170) of Ontario government sites that had the potential to provide transactional services had not yet done so. This would indicate that in view of enhancing its world leadership status, there is still considerable room for Ontario to improve the electronic delivery of its services.

Recommendation

To improve the performance of electronic service delivery (ESD), Management Board Secretariat should:

- **expand current benchmarking exercises to include more types of electronic service delivery; and**
- **use and disseminate the results of benchmarking studies to help ministries identify areas needing improvement and develop action plans to implement the required improvements.**

Management Board Response

Given the growing number of benchmarking studies and the variable methodologies of these reports, Management Board Secretariat (MBS)

acknowledges that conclusively demonstrating Ontario's world leadership status is, and will continue to be, a challenge. As the Provincial Auditor recommends, MBS is using results of recent global benchmarks to identify areas where improvements are needed to sustain our global leadership. Client satisfaction surveys and organizations that lead benchmark studies note five key criteria that influence satisfaction, and ultimately influence where governments are ranked internationally. We have taken steps to improve in each of these areas: vision and implementation, customer-centric approach, customer relationship management, volume and complexity of e-services, and customer centric portals. A study released in Germany in June 2002, for example, placed Ontario third amongst 60 jurisdictions surveyed. Two Ontario projects received awards at the E-Gov 2002 Exposition in Washington, D.C.

Leveraging and Integration

We found no convincing evidence that 75% of Ontario's ESD projects are "leveraging" a common I&IT infrastructure. In fact, no clear definition has been developed as to what constitutes a "leveraged" project, and no assessments have been made as to how many current ESD initiatives could be considered "leveraged". Branch documentation indicates that achievement against this target will be assessed by "internal metrics"—none of which have been currently defined. We conclude therefore that this measure is at present too vague to be considered useful.

The issue of ESD project "leveraging" is, in our view, part of a much larger and important issue, that of ESD integration. Ontario's long-term vision for ESD services is that they will be seamlessly integrated within the overall context of government program delivery. Working towards this goal has many aspects, some of which are discussed below.

In looking at the development of a common I&IT infrastructure, we reviewed the government's 1998 I&IT strategy and noted that it incorporated a three-year action plan designed to address, for the year 2001 and beyond, a number of core infrastructure issues to transform the government's IT environment. These changes were considered critical to providing a foundation for supporting the government's major service delivery and restructuring projects, including its future ESD initiatives. However, at the time of our audit, much of the work contemplated under this strategy has not been completed or has been found to be unworkable as originally envisioned. For example:

- The strategy incorporated a "target information architecture" for the sharing, where appropriate, of information pertaining to individuals, businesses, and land. This data model remains to be implemented.
- The strategy envisioned a standardized desktop to be implemented throughout the government, with each ministry cluster choosing one suite of application products. This standardization has not been completed.

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- The strategy incorporated a "target information architecture" for the sharing, where appropriate, of information pertaining to individuals, businesses, and land. This data model remains to be implemented.
- The strategy envisioned a standardized desktop to be implemented throughout the government, with each ministry cluster choosing one suite of application products. This standardization has not been completed.

- The strategy envisioned a common help-desk facility to provide first-level solutions and a government-wide problem management system. These have not been established.

Another key government-wide integration initiative that MBS started in 1999 was the "21 common-component project". The project's purpose was to develop centrally approved architecture and applications for 21 general-purpose components that are common to many ESD services. General-purpose components would include a credit-card payment system, a shopping cart facility, and an address changing function. Once developed, these approved components could then be shared with all ministries, thus reducing duplication of effort and investment in developing new ESD components. As well, shared components would accelerate movement toward a common "look and feel" to ESD services being accessed by Ontarians, thereby minimizing user confusion or frustration arising from a lack of consistency. However, at the time of our audit, with the exception of one component (the on-line credit-card payment system), these 21 common components were still in the development stage.

Another aspect of integration is what is known as system integration. In a seamless ESD application, the "front-end" service that is accessed by the general public through a Web site or other electronic means is connected to the "back-end" application system and database. For instance, a system that allows users to change their addresses on-line would be connected to the government database that houses and updates this information. This type of integration minimizes unnecessary data handling, edit checking, and transaction processing, which makes integrated systems more efficient and less prone to error. To date, few government ESD systems are fully integrated, a point also raised in private-sector studies. As one significant example, we noted that the Ministry of Transportation's on-line vehicle registration system has not as yet been integrated with the legacy Vehicle Registration System on the Ministry's mainframe computer. As a result, ministry staff must retrieve all information submitted on-line, print this information out, and manually re-input this data into the legacy system. There is also no on-line validation to ensure data being entered by a user is valid and complete (for instance, that all required fields are filled in), adding to the administrative burden of processing and following up on these transactions.

As mentioned earlier, a common "look and feel" is another way in which ESD services can be integrated. A common look and feel is implemented across an organization's Web sites and its numerous linked pages to add to ease of use and is thought by experts to increase general confidence, comfort, and trust in an organization's ESD offerings. Our review of Ontario's numerous on-line offerings indicates the province still has a long way to go in this area. Ministry sites often differ significantly in both appearance and in transactional interfaces.

Recommendation

To ensure that electronic service delivery (ESD) is integrated, Management Board Secretariat should:

- **clearly define the meaning of "leveraged" ESD initiatives and benchmark ESD projects against this target;**
- **complete the development of a common information and information technology (I&IT) infrastructure;**
- **complete the "21 common-component project" as soon as possible so that the efficiency gains and effectiveness of these components can be realized wherever feasible in existing and future ESD projects;**
- **develop a strategy for system integration of legacy systems with the newer "front-end" Web server systems; and**
- **develop a strategy to continually standardize ESD interfaces throughout the government to achieve a common "look and feel".**

Management Board Response

Management Board Secretariat (MBS) is working to refine the corporate ESD performance measure of better government through information and information technology (I&IT), (that is, the leveraging of a common I&IT infrastructure). Enterprise-wide common infrastructure (for example, network, directory, security) is extensively deployed and in use, as are initial ESD common components. The Office of the Corporate Chief Information Officer has recently confirmed the next infrastructure priorities for the coming few years, including a strategy to accelerate the development and use of the 21 common electronic service delivery components. We agree with the Provincial Auditor's findings that common components will significantly reduce the development time for ESD systems and will also serve to contain ongoing operating costs.

MBS agrees that integration of back-office legacy systems with Web server systems is an important aspect of system and service integration. It is also the most complex and risky step in the maturation of electronic service delivery, which is why we are approaching it with caution and careful consideration. Major legacy system renewal of the drivers and vehicles systems is underway at the Ministry of Transportation and will, among other factors, support front-end Web applications.

The implementation of a common interface for clients is a priority. We are revising our "look and feel" Web standards to ensure we migrate to a common approach across the government, including ensuring that sites are accessible to persons with disabilities. MBS will ensure that ESD interface standards are given priority by the government's I&IT Standards Council and the GO Web Committee.

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Other Performance Measures

Given that governments have only recently been delivering services electronically, it is not surprising that ESD performance measurement systems—in Ontario and throughout the world—are essentially in their infancy. However, systems to estimate expected ESD performance and cost improvements and to measure actual performance against such targets need to be developed to support continued investment in ESD.

As already outlined, the Branch's performance-measurement efforts to date have primarily had an external focus (for instance, the impact on users and Ontario's ranking against other jurisdictions). As well, MBS's performance measures have largely been developed and implemented centrally, without ministry involvement. While we support the efforts made to date, we believe that to fully drive the ESD initiative forward more is needed—specifically, a mix of both internal and external performance measures and a more co-ordinated approach to measuring performance centrally and across ministries.

Third-party studies and our own observations indicate that government business cases for ESD initiatives to date have focused almost exclusively on expected outcomes related to improved customer service. While service improvement is of course a critical factor, it alone is insufficient to measuring performance. Another critical consideration is cost effectiveness.

There are a number of possible approaches to measuring cost effectiveness. For new ESD initiatives, business cases could compare projected application development costs against projections of economic and non-economic benefits. Economic benefits could include such elements as expected business growth; savings in terms of reduction in front-line staffing needs; cost reductions related to less document handling and error correction; reduced or eliminated data inputting and/or processing; and reduced printing, publication, or mailing costs. Non-economic benefits could include: improved customer service as measured by improved transaction turnaround times and greater customer satisfaction. After ESD implementation, measures should be used to validate business cases and support continued investment in ESD improvements. Such measures could include: the cost per transaction, statistics for user growth and repeat users, data accuracy and efficiency improvements, improvements in the timeliness of service, and analysis of user feedback.

Our observations at the ministry level indicate that to date ESD performance measurement practices are quite basic and ad hoc in nature. For instance, while the Ministry of Transportation had established standards for its renewal service for licence plate validation stickers, actual performance was not being adequately monitored to determine whether they were being met and whether corrective action should be considered. At the Ministry of Training, Colleges and Universities, the existing performance measurement strategy needed to be updated to include more ESD performance targets and measures with respect to on-line student applications. Furthermore, the approaches applied across the government lacked consistency, and none of the ministries we visited had integrated their measures with those used centrally by the Branch.

Recognizing the need to develop sound and consistent approaches to ESD performance measurement, in fall 2001, the Branch launched a baseline performance data initiative. The initiative is to include a process for data collection and analysis through a liaison appointee from each ministry that is aimed at identifying gaps in performance measures with a view to closing such gaps. Through this initiative, the Branch will attempt to integrate ministry ESD performance measures with the current measures used by the Branch for customer satisfaction and world leadership status. At the time of our audit, this initiative was still in its early stages. We noted that the ESD staff we dealt with at ministries were largely unaware of it.

Recommendation

To ensure accurate and useful performance measurement of the government's ESD initiatives, the Branch should:

- **develop additional approaches to ESD performance measures that include a mix of external and internal targets and improved business-case methodologies; and**
- **work with ministries to help them develop performance measurement approaches in an integrated manner across program areas.**

Management Board Response

Management Board Secretariat (MBS) welcomes the advice of the Provincial Auditor to strengthen the performance measures by expanding the range of targets set. Ontario has deliberately set a target that is client focused and outcome based. MBS will explore ways to further develop internal and external targets that meet the needs of ministries in measuring their own performances in the context of the corporate ESD measures.

MBS has already taken steps to facilitate the development of better ESD project business cases, including the development of a tool kit for use by ministries.

In December 2001, MBS set up an ESD Performance Measures Network of representatives from all ministries to:

- ***facilitate the collection of ministry baseline data on ESD performance measures,***
- ***pilot and internalize ESD performance measurements developed by MBS,***
- ***share best practices in the area of performance measurement, and***
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We recognize the importance of ongoing dialogue with ministries to assist them in understanding the ESD performance-measurement framework, and we will continue to work with ministries to develop program-level indicators. For example, at Showcase 2002, MBS hosted a panel discussion on performance measurement to reinforce with attendees from all ministries and I&IT clusters the importance of measuring results and acting on performance gaps. We will continue to actively assist ministries to identify means of improving outcomes up to and beyond 2003. We are initiating the use of a "best in class" methodology for measuring organizational maturity in regards to client satisfaction to pinpoint specific areas that we must focus on to achieve our 2003 target.

PROMOTION AND COMMUNICATIONS

To ensure the public is aware of the government's ever-growing number of electronic services and to promote their use, when the Management Board of Cabinet approved the ESD strategy in June 2000, it directed MBS to develop an ESD communications plan prior to the public announcement of the 2003 targets. In February 2001, when it approved the ESD corporate plan, the Management Board of Cabinet again directed MBS to complete this communications plan and report back with it in April 2001.

An e-government communications plan was finally completed in the spring of 2001. The plan noted that, despite promotion efforts to date, media coverage of the government's ESD commitments and activities had been negligible. Recognizing that increasing public awareness of available electronic services was a critical component of the ESD strategy, the plan envisaged high-profile fall 2001 launches for major ESD initiatives, which would be followed by several "large-impact" announcements for several months to build and sustain momentum.

In our view, however, ESD promotion efforts throughout 2001 were relatively modest. The most significant public promotion appeared to be the fall Showcase event, which was a series of seminars and presentations that highlighted ESD project success stories. While this appeared to be an excellent forum, Showcase participants were primarily from within the public service, public institutions, or the wider community of IT and ESD vendors and consultants. It was not, in our view, an effective forum for disseminating ESD information to the general public—the actual target users of new ESD applications.

The first major communication to the public occurred much later, in the government's spring 2002 quarterly report to Ontario residents. This communication devoted several pages to the government's ESD initiatives, providing an excellent overview of currently available and upcoming electronic services and promoting the main government portal as an exploratory tool to access these services. We encourage this type of communication on an ongoing basis and believe continued promotions of this type have the best chance of reaching target audiences, building awareness, and enticing potential first-time users to try ESD.

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In addition to needing better public communication, the promotion of ESD requires internal co-ordination across the government. To achieve the best results and to ensure consistent messaging, MBS and ESD ministries should work together. MBS's ESD communications plan itself incorporates this view, envisaging a central strategy to be used by all ministries in providing common messages. We noted that more work is needed to ensure this co-ordination is achieved. Most ministry staff we dealt with were unaware of the central strategy.

We also had some concerns with the specific ESD communication approaches used by the ministries we visited. At the Ministry of Transportation, since the implementation of the on-line renewal service for licence plate validation stickers in October 2000, there has been very limited promotion of this service to the public. This has contributed to a very low penetration rate for this service:

- Only 4,257 vehicle licence renewals were processed on-line for the period from November 2000 to January 2002—this is only 1.9% of the projected on-line volume of 221,100 renewals. Given that there are about 7 million vehicle licences renewed every year, the total Internet penetration for this service was approximately 0.05%.
- Although the vehicle licence renewal service was designed to be "soft-launched"—that is, with minimal publicity for the first two months of operation to ensure the system could handle the expected transaction volumes—the communications strategy recommended that higher-profile promotions were to follow the initial two-month period. However, we saw little evidence of public promotion of this service.

At the Ministry of Consumer and Business Services, we noted that a draft communications plan had been prepared for the Ontario Business Connects program (the program allows business registration and other related services to be conducted by electronic means). The plan contained a detailed promotion strategy, but no target dates had been established for any of the planned activities. It is therefore unclear how many, if any, of these planned components will be executed in time to support the government's 2003 ESD targets.

In addition, at the same ministry, we noted that a five-year contract with a private-sector consortium was in place to improve public access to 24 government electronic services. We reviewed the procurement and evaluation processes the Ministry followed to ensure a fair, open, and competitive process in the awarding of this consortium contract. We concluded that government directives were complied with and good business practices were followed. However, under the contract, the consortium is responsible for developing appropriate marketing and communication plans related to these services. The first promotion plan prepared by the consortium, in our view, provided insufficient detail as to how public awareness and use of these services was to be generated, even though performance targets set under this contract are very aggressive and suggest that a corresponding aggressive promotion campaign will be necessary. The contract covers some 11.7 million annual transactions with the public, and it is estimated that, by the end of the five-year term, a significant portion of these transactions will be provided through the electronic means developed by the consortium—specifically, between 5.3 million and 9 million transactions (45% to 77% of total transactions). These transactions include the on-line vehicle licence renewal service discussed earlier that has essentially achieved no Internet penetration.

The Ministry of Training, Colleges and Universities has had considerably more success in promoting its on-line student assistance program. Student loan summary statistics over the last four-year period are presented in the following table.

Ontario On-line Student Loan Applications Statistics, 1998/99–2001/02

	School Year			
	1998/99	**1999/00**	**2000/01**	**2001/02**
Total loan applications	241,124	227,131	211,735	195,087
On-line loan applications	45,538	66,361	91,275	110,722
Percentage of applications submitted on-line	19%	29%	43%	57%

Source of data: Ministry of Training, Colleges and Universities

Growth in the on-line loan program has been quite impressive with over 50% of the student population applying for assistance on-line in 2001/02. There are a number of possible explanations for this, including the likelihood that students in general have higher computer literacy rates than the general population as well as the efforts the Ministry has exerted to communicate the availability of the on-line service and to integrate this activity into its overall program delivery. Another factor that contributed to the success of the on-line application was the fee structure applied to this initiative. While a $10 processing fee is required with the submission of a loan application made via traditional channels, this fee is waived for on-line applications.

We believe this type of differential fee structure may be a useful approach to promoting Internet activities in other government areas, particularly where the Internet provides a lower, long-term cost for the delivery of government services. We noted that an ESD pricing strategy that MBS recently developed would appear to allow for this type of promotion where appropriate (MBS's pricing strategy outlines guidelines for appropriate fees on government services delivered electronically).

We also noted that such pricing approaches were supported by a consulting firm hired by the Ontario government in 2000 to conduct a review of ESD in other jurisdictions. Specifically, the consulting firm's report made reference to a case study in Arizona where the majority of user complaints about motor vehicle registration services related to a $6.95 transaction fee, noting that: "In less than a year, Arizona eliminated the fee and witnessed electronic registration renewals increase by 21%." The consulting report also cited other sectors, such as financial services, that have long used differential pricing to increase usage of ESD.

Recommendation

To maximize the public's use of electronic service delivery (ESD), Management Board Secretariat should:

- **develop and deliver an ongoing communication campaign that builds consumer awareness of ESD and promotes its use;**
- **work with ESD ministries to help them ensure consistent messaging and co-ordination of promotional efforts;**
- **where specific penetration targets are set for particular ESD applications, help ministries develop commensurate promotional strategies to achieve those targets; and**
- **consider differential pricing strategies where ESD offers a promise of providing significant long-term cost savings in program delivery.**

Management Board Response

Management Board Secretariat (MBS) agrees that the take-up of our electronic services will not happen without active communication and marketing and is refining its corporate communications strategy to emphasize marketing of government electronic channels and services.

Significant work is underway at MBS and the Ministry of Consumer and Business Services to implement approved communications plans for e-government and integrated service delivery. Where a particular ESD application with a large prospective customer base is being launched, the ministries are encouraged to actively market their e-services to prospective clients, ensuring that corporate messaging and consistent practices are used.

Work is also underway to explore the feasibility of various policies aimed at encouraging take-up of electronically delivered services. As the Provincial Auditor has noted, MBS is implementing an approved channel pricing policy, and several pilot projects are to be undertaken in this fiscal year to help evaluate these models and identify scenarios where they will have the best impact.

end of the five-year term, a significant portion of these transactions will be provided through the electronic means developed by the consortium—specifically, between 5.3 million and 9 million transactions (45% to 77% of total transactions). These transactions include the on-line vehicle licence renewal service discussed earlier that has essentially achieved no Internet penetration.

The Ministry of Training, Colleges and Universities has had considerably more success in promoting its on-line student assistance program. Student loan summary statistics over the last four-year period are presented in the following table.

Ontario On-line Student Loan Applications Statistics, 1998/99–2001/02

	School Year			
	1998/99	**1999/00**	**2000/01**	**2001/02**
Total loan applications	241,124	227,131	211,735	195,087
On-line loan applications	45,538	66,361	91,275	110,722
Percentage of applications submitted on-line	19%	29%	43%	57%

Source of data: Ministry of Training, Colleges and Universities

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DEVELOPMENT AND DELIVERY OF ELECTRONIC SERVICES

As mentioned earlier, the October 2000 ministry action plans identified high-impact services for each ministry. At the ministries we visited, we focussed on the Web-based, front-end systems that assisted the ministries in providing ESD services to the general public. Specifically, we reviewed the project planning, execution, and monitoring processes for three of these service improvement projects as well as for one of the 14 projects for which Cabinet approved additional funding. We noted that, for these high-priority projects, while the ministries had implemented a number of sound project management practices, with respect to security practices and service availability, there was some room for improvement.

Security

In reviewing security issues relating to ESD initiatives, we examined both the security of the government network and the security of systems for the areas we reviewed at the ministries we visited. The government network is the telecommunications infrastructure that provides connections within and between ministries, as well as between the government and the public. Ministry systems comprise various application programs and databases.

NETWORK SECURITY

In February 2001, MBS entered into an agreement with a private-sector company to provide for the management of the government's network. The purpose of this project is to develop a robust, high-capacity, and cohesive telecommunications network that supports effective internal communications and links to the broader public sector. The project consists of many components, and the process of transferring responsibility for many of these components was in transition at the time of our audit. MBS expected this project to be completed by the end of summer 2002.

We found that a full security audit of this project could not be conducted at this time because significant steps in the process were still outstanding. Accordingly, we limited our review to the security provisions in the contract with the private-sector company. Since these security provisions were linked to MBS's new security guidelines and standards for computer environments, we reviewed these guidelines and standards, which were recently developed as an extension of the Management Board Information and Information Technology Security Directives. We also evaluated the administrative arrangements under which the contract will be managed, including the roles and responsibilities of key stakeholders, such as the company (and its sub-vendors), the MBS corporate security group, and other monitoring and governance committees.

The provisions in the contract and the government security guidelines are sufficient to provide reasonable assurance that the government network will be properly protected.

However, MBS will need to obtain assurance—through ongoing monitoring and audits of third-party service providers—that these guidelines have been effectively implemented. The contractual arrangements contain stipulations enabling such monitoring and regular independent audits, and MBS intends to commission its first audit later this year.

The same private-sector provider also manages and monitors network security for the government Internet gateway. This gateway is the main entry point for users accessing all government electronic services. MBS maintains an intrusion detection service on this gateway to detect any unauthorized and/or inappropriate access attempts or attacks. During our audit, we noted that live monitoring only took place during office hours. Therefore, security threats that occur in the evenings or on weekends may not be promptly identified and dealt with.

As part of our review, we also looked at the standard security requirements for other government jurisdictions offering on-line services to the public and noted that Web-based general security standards to process transactions was similar. However, some international jurisdictions have incorporated higher levels of security for certain designated high-risk or confidential transactions by requiring that users provide a previously issued personal digital certificate—an encrypted form of electronic identification that authenticates a user's identity—before allowing them to complete certain transactions.

SYSTEM SECURITY

In February 2001, Management Board of Cabinet directed all ministries to complete a formal threat risk assessment (TRA) for all "high-trust" ESD initiatives. A TRA helps ministries identify potential high-risk areas (where the nature of the system or the data necessitates a greater degree of protection—for instance, for reasons of confidentiality). This, in turn, allows ministries to develop controls to mitigate such risks. MBS has produced a guide to assist ministries in conducting these assessments. We noted that the Ministry of Transportation and the Ministry of Training, Colleges and Universities had not completed TRAs for the electronic services we reviewed. Therefore, there was no assurance that these ministries had appropriate levels of protection applied to all sensitive information.

We assessed computer security arrangements for the ESD systems we reviewed at the ministries we visited. These systems included the Web-based applications and hardware required to connect the ministries' internal applications and database systems with the Internet. We concluded that there were several areas where security could be improved:

- Credit-card information received from customers of the Ministry of Consumer and Business Services is transmitted internally in clear text using a local-area network. While these transmissions take place behind a government firewall and industry-accepted safeguards are built into the transmission process to external parties, additional steps can be taken to enhance security in this area.

- The Ministry of Transportation uses GONET, the government of Ontario's internal wide-area network, which is behind a government firewall, to transmit credit-card and driver's licence information in clear text, not encrypted. We also noted that security measures that enhance data confidentiality—such as a public key infrastructure (PKI) system—were not in place for these transmissions.
- At the ministries of Consumer and Business Services and Training, Colleges, and Universities, duties and responsibilities in the administration and operation of systems were not adequately segregated. Some individuals were assigned multiple job functions that granted incompatible system rights, thereby increasing the risk of data manipulation.
- These two ministries also did not have adequate controls to protect user accounts and system resources. For instance, the Ontario Business Connects system did not revoke user accounts after a number of unsuccessful log-in attempts. As well, file protection and user password management for both ministries did not comply with government standards to ensure appropriate levels of security were maintained. For example, the expiration limits for user passwords exceeded standards at both ministries.
- The Ministry of Training, Colleges and Universities did not have formal security administration procedures and tools to ensure active security monitoring. As well, at both the Ministry of Training, Colleges and Universities and the Ministry of Consumer and Business Services, inactive accounts were not being deleted from systems promptly. In one program area at the Ministry of Consumer and Business Services, we found 180 inactive user accounts. We were informed that these accounts could not be deleted while the legacy system architecture remains in place without compromising data integrity.
- Security over the computer room at Ontario Business Connects and over the electrical room containing routers at the Ontario Student Assistance Program could be improved. Unauthorized individuals could potentially enter these facilities and access sensitive information.

Recommendation

To ensure that confidential data is better protected against unauthorized access and potential tampering, Management Board Secretariat and the Ministries should:

- **centrally establish an intrusion detection service providing coverage 24 hours a day, seven days a week, to ensure continuous monitoring of the Ontario government network;**
- **explore the possibility of using more secure mechanisms, such as personal digital certificates, to authenticate the identity of individuals transacting with the government through the Internet;**

- **consider completing threat risk assessments for all major existing services delivered electronically to ensure data is adequately protected;**
- **consider cryptography or other controls to secure data transmitted over the government's internal and external networks until alternative arrangements, such as a centrally administered public key infrastructure system, are in place to ensure data confidentiality and integrity;**
- **segregate system duties such that individuals are not assigned incompatible system rights; and**
- **implement more rigorous controls over system passwords and user accounts to protect system resources and user accounts.**

Management Board and Ministries Response

Management Board Secretariat (MBS) has received approval from Management Board of Cabinet to implement round-the-clock monitoring of the Government of Ontario OPS [Ontario public service] private network, 365 days a year. Additional staff are currently being recruited to support the continuous monitoring of OPS information and infrastructure assets, and funding has been allocated to expand the intrusion detection network, providing enhanced detection and response capabilities.

The Information Protection Centre is expanding its partnership with other accredited early warning agencies, forming a network to gather advanced intelligence information on emerging electronic threats.

Ontario has one of the largest public key infrastructure (PKI) deployments in North America and is positioned to use this security technology to provide enhanced electronic authentication. MBS will continue to provide advice to clusters and ministries and to assist them in leveraging the current PKI infrastructure and other new security practices and tools, such as cryptographic controls that are available to them.

MBS routinely provides threat risk assessment (TRA) advice on any new system under development in ministries and welcomes the recommendation to undertake security reviews of existing systems:

- ***The Management Board of Cabinet has approved a plan for MBS to participate in the development of TRAs for all mission-critical systems.***
- ***MBS is currently working with I&IT clusters and with ministries to prioritize the systems that will be reviewed.***

The Ministry of Training, Colleges and Universities completed its threat risk assessments in August 2002. The Ministry of Transportation will complete a formal threat risk assessment following MBS guidelines for all future projects.

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systems interface with financial institutions, the Ministry uses the security protocols adopted by the international financial institution community, and credit-card information received from customers is transmitted in accordance with approved security controls and practices internally. The Ministry of Transportation uses encryption internally, behind the firewall, between the client and the Web server using industry-standard encryption methodology and is investigating the cost of encrypting data end-to-end.

The ministries of Consumer and Business Services and of Training, Colleges and Universities have already taken action to address some of the Provincial Auditor's concerns.

MBS will ensure ministries follow proper security management practices and will advise clusters and ministries on the importance of the segregation of duties to limit security breeches. Annually, ministries undertake a data security self-assessment. MBS will advise I&IT clusters and ministries of required security controls and policies and will follow up to confirm that these are being implemented properly by I&IT clusters and ministries.

Service Availability

To be viable and credible, ESD services should be designed to operate on a high availability basis. Service disruptions should be minimal. We reviewed the data backup and disaster recovery processes of the Web-based applications at our selected ministries and had the following concerns:

- At the Ministry of Transportation, the same computer server was used for over 15 online applications, even though generally, servers support approximately one to two moderately sized applications. The overloading of this server has contributed to system downtime and performance issues over the last year. At the time of our audit, the Ministry was preparing to add an application for Internet road-test booking onto this same server. This can only further aggravate service availability. In addition, the Ministry did not have procedures, system utilities, and diagnostic tools in place to monitor system performance in real time. Since there were performance capacity issues with the existing system, such monitoring would help prevent sudden system outages.
- The Ministry of Training, Colleges and Universities stores all new and amended application data for the Ontario Student Assistant Program on a Web server and transfers this data to a back-end application system twice daily. A number of safeguards are in place to protect this data between transfers. However, despite these safeguards, there remains the possibility of loss of student loan application data if the Web system fails between scheduled file transfers. Real-time backup could eliminate this risk.

Recommendation

To ensure a high availability of electronic services and that all collected client data remains complete and accurate:

- **Management Board Secretariat should develop standards and policies to address systems availability;**
- **the Ministry of Transportation should review its hardware performance and capacity needs to ensure its systems can provide appropriate service levels to the public; and**
- **the Ministry of Training, Colleges and Universities should consider instituting a process of real-time backup for the application data relating to the Ontario Student Assistance Program.**

Management Board and Ministries Response

Management Board Secretariat (MBS) will ensure that, where appropriate, sufficient redundancy is built into the infrastructure to support high availability for those mission-critical applications that need to be available around the clock, such as systems that support police and ambulance services. MBS will develop policies and standards to ensure new systems are architected and designed to enable high availability, where business requirements dictate, and will work with ministries to upgrade existing systems.

The Ministry of Transportation is rigorously replacing obsolete and overloaded servers. The server referred to is included in this replacement activity. The target to refresh the overloaded application and Web servers is the fourth quarter of 2002/03. Following the introduction of the replacement server, the Ministry plans to improve its proactive monitoring using modern diagnostic tools and system utilities.

The Ministry of Training, Colleges and Universities feels the risk of data loss is extremely low with its current system. Data collected through the Web-server system is protected by a disk protection system that ensures steady, ongoing processing of information in the case of a drive failure. In addition, essential data collected from students on their applications is archived between the twice-daily backups to allow full recovery of data in the case of a catastrophic loss of application data.

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MANAGEMENT BOARD SECRETARIAT AND THE MINISTRIES OF THE ENVIRONMENT, FINANCE, HEALTH AND LONG-TERM CARE, NATURAL RESOURCES, AND PUBLIC SAFETY AND SECURITY

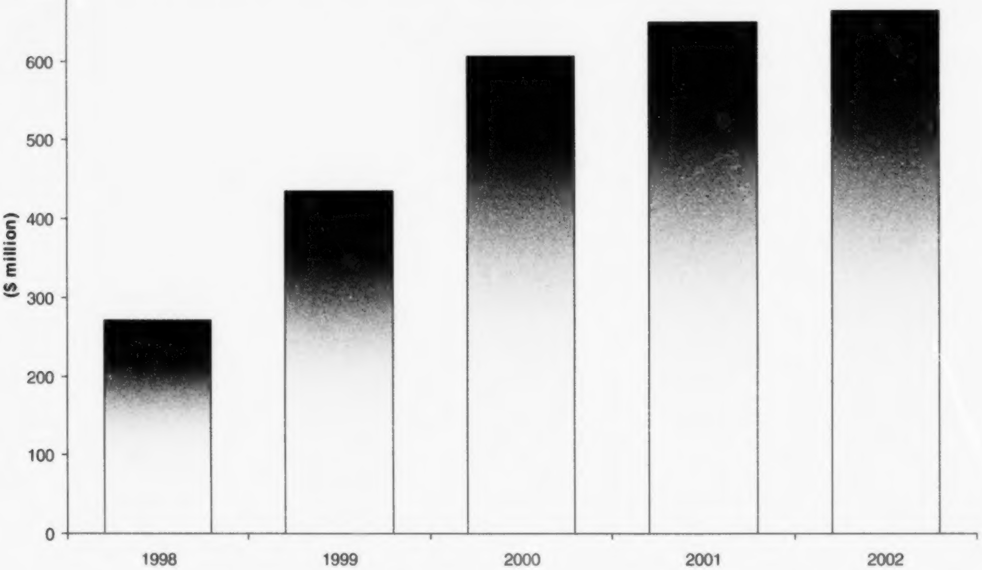
3.06–Consulting Services

BACKGROUND

Consulting services, as defined under the Management Board of Cabinet Directive on Consulting Services (Directive), are services provided for a fee, on the basis of a defined assignment, and relating to management consulting, information technology (IT) consulting, technical consulting, and research and development.

Over the past five years, there has been a substantial increase in annual consulting services expenditures at Ontario ministries, from $271 million in 1998 to $662 million in 2002. The following graph illustrates this increase.

Annual Consulting Services Expenditures at Ontario Ministries, 1998–2002



Source of data: Ministry of Finance

The increase has been particularly significant for IT and management consulting services. Expenditures for IT consulting services have tripled from $100 million to $313 million during the past five years, while those for management consulting have increased almost four-fold, from $40 million to $152 million.

With respect to the planning, acquisition, and management of consulting services within the Ontario government, Management Board Secretariat (MBS) is primarily responsible for:

- developing and evaluating the effectiveness of the Directive and recommending any changes to the Management Board of Cabinet;
- assisting ministries in the development of their administrative procedures in support of the Directive; and
- reviewing ministry submissions and reports to evaluate ministry performance with respect to compliance with Directive requirements.

The Directive outlines four main principles, which are summarized as follows:

- *Competition*: Consulting services shall be acquired competitively, through open and transparent procurement procedures, to meet specified needs with the objective of obtaining the best value for the funds to be expended.
- *Access*: Access for suppliers to compete for ministry consulting assignments is to be open, fair, and consistent. When acquiring consultants, ministries must avoid any conflict of interest, must not permit a supplier to gain a monopoly for a particular kind of work, and must not continuously rely on a particular outside organization.
- *Fair and equal treatment of suppliers*: Suppliers of consulting services shall be treated in a fair, equitable, and responsible manner.
- *Responsible management*: Ministries shall co-ordinate, monitor, and control the combined efforts of internal and external resources to ensure satisfactory completion of consulting assignments on schedule and within budget. When appropriate, a transfer of knowledge must occur from consultant to staff to avoid a continuous reliance on consultants.

These principles are in turn reflected in the following mandatory requirements:

- *Assignment definition, justification, and approval*: Before seeking assistance from suppliers of consulting services, the ministry must ensure that the assignment is well defined and justified and that appropriate approvals are obtained.
- *Competitive acquisition*: The estimated ceiling price of an agreement (including fees and expenses) determines the prescribed acquisition procedure. Specifically:
    - If the estimated ceiling price is less than $25,000, the ministry determines the appropriate procedure. However, competition must not be avoided by awarding the same consultant continuous agreements, each less than $25,000 but totalling more than $25,000, unless each assignment is unique and different and the terms

of reference of each new assignment change substantially from the previous assignment.

  - If the estimated ceiling price is $25,000 or more, all consulting services must be acquired through a competitive process that must include at least a written request for proposals; a written evaluation of proposals; a written agreement; and, upon the request of bidders, bidder debriefing. Ministries must select from among qualified bidders the consultant with the lowest evaluated cost.
  - If the estimated ceiling price is $100,000 or more, an open call for tenders must be issued.

- *Approval of supplier selection*: When the ceiling price for an assignment (including any follow-on assignments) is $100,000 or more, approval in writing of the selected supplier, the selection process, and the proposed agreement must be obtained from the Deputy Minister or designate. When the estimated price is $500,000 or more, the approval of both the Deputy Minister and Minister must be obtained.
- *Agreements*: The ministry and the supplier must formally define the responsibilities of both parties with respect to the assignment through a written agreement. Further, the ceiling price of an agreement must not be exceeded if the terms and conditions of the agreement remain unchanged.

  In all cases in which changes to the terms and conditions for any agreement increase the ceiling price, the following need to both be documented and receive the prior approval of the Deputy Minister or designate: the changes and/or additions to the agreement; the method used to arrive at the revised ceiling price; and the reason why the need for changes and/or additions were not foreseen prior to agreement signature. The prior approval of both the Deputy Minister and Minister is required for any changes to the ceiling price that cause the total value of the agreement to reach or exceed $500,000.
- *Assignment documentation*: Ministries must retain appropriate documentation of each assignment for reporting to MBS and for future reference. Ministries must be prepared to provide a report to MBS on their ability to effectively manage the process of planning, acquiring, and managing consulting services.

In addition to the requirements set out in the Directive, MBS has established corporate vendor-of-record (VOR) arrangements with multiple vendors. These are contractual arrangements for the ongoing acquisition of commonly purchased goods and services, including consulting services, over a specified term that are available to all ministries.

AUDIT OBJECTIVE AND SCOPE

The objective of our audit of consulting services was to assess whether six selected ministries had adequate systems and procedures in place to ensure that consulting services were acquired and managed with due regard for value for money and in compliance with corporate policies.

The scope of our audit included the following six ministries (the Ministries): Management Board Secretariat and the ministries of the Environment, Finance, Health and Long-Term Care, Natural Resources, and Public Safety and Security (Public Safety and Policing Services Divisions only, constituting the former Ministry of the Solicitor General). Our audit work included interviews with appropriate staff at the Ministries, a review of the Directive and other relevant administrative procedures, and an examination of consulting services contracts, invoices, and other related documents.

Prior to the commencement of our audit, we identified the audit criteria that would be used to conclude on our audit objectives. These were reviewed and agreed to by senior management at the Ministries.

Our audit was performed in accordance with the standards for assurance engagements, encompassing value for money and compliance, established by the Canadian Institute of Chartered Accountants, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

During the course of our audit, we worked with the Internal Audit Services for the Ministry of Finance and were able to rely on their work to reduce the extent of our work at the Ministry. Our audit field work was substantially completed by March 2002.

OVERALL AUDIT CONCLUSIONS

Our audit identified numerous instances where the Ministries did not comply with directive requirements and MBS guidelines. As a result, we concluded that, in many respects, consulting services were not acquired and managed with due regard for value for money. The following is a summary of our major concerns.

Use of Consultants at Ministries

Heavy dependence on the use of consultants: Hundreds of consultants were engaged at per diem rates that were on average two to three times higher than the salaries of ministry employees performing similar duties. For instance:

- At the Ministry of Public Safety and Security, over half of the IT workforce was made up of consultants. In addition, more than 40 of these consultants were former ministry employees who had left the Ministry in 2001 and returned within a few days at per diem rates that were more than double their salaries as employees.

Awarding continuous agreements with little or no change to the original deliverables: Ministries often entered into contracts that started with the consultant providing its expertise for a short period of time, usually on a three- to six-month contract, after which the contracts were extended with little or no change to the original deliverables. For example:

- A consultant was initially engaged by the Ministry of the Environment to provide technical consulting services for three months at a rate of approximately $540 per day, with total remuneration not to exceed $25,000. Over the following three years, the consultant's contract was renewed or extended seven times without any change in the contracted deliverables, for total remuneration of $455,000.
- A consultant engaged by the Ministry of Health and Long-Term Care on a six-month assignment at $96,000 was awarded successive contracts that extended the term to two years, resulting in a total price of $360,000. The consultant was eventually replaced with a full-time staff member at an annual salary of approximately $60,000.

Lack of knowledge and experience for carrying out senior-level responsibilities within ministries: Some ministries had to engage senior-level consultants at high per diem rates to oversee projects and manage the work of other consultants. For example:

- As at March 31, 2002, the Ministry of Health and Long-Term Care had engaged about 15 senior consultants who charged over $1,200 per day on average in a management capacity, compared to approximately $340 per day for senior ministry employees at the equivalent level.

Lack of competition in acquiring IT consultants: In the development and implementation of multi-million-dollar IT projects, the Ministries often engaged consultants on a per diem basis to do the work instead of calling for open tender. This practice did not ensure that the most qualified consultants were acquired at the best available price and that all suppliers of consulting services were given fair access and treated in an open and transparent manner. Examples of our findings are provided in the following table.

Information Technology Projects for Which an Open Tender Process Was Not Followed

Ministry	Project	Project Costs (estimated or actual)	Other Concerns
Environment	Environet (three of six components)	$1.1 million–$4.2 million (estimated)	
Natural Resources	MNR ON-Line	$1.9 million (actual) at March 31, 2002	no estimate made of cost and time required to complete the project
Health and Long-Term Care	Smart System for Health	$12.7 million (actual) at March 31, 2002	
	Integrated Services for Children Information System	$8.5 million (actual) at March 31, 2002	original estimate was $6 million; estimated additional $3 million required to complete the project
	a project to define and implement quality-assurance processes	$5.9 million (estimated)	
Public Safety and Security	IT Service Management Project	$3 million (actual) at March 31, 2002	consultant sub-contracted some work to another consultant on current VOR list
Management Board Secretariat	a management improvement project	$1.4 million (estimated)	project cancelled by MBS after $467,000 was spent

Sources of data: Management Board Secretariat and Ministries of the Environment, Health and Long-Term Care, Natural Resources, and Public Safety and Security

Risk assumed by engaging consultants on a per diem basis: By compensating consultants on a per diem basis and not on the basis of a fixed price and fixed deliverables, the Ministries assumed the risk of consultants not delivering their work on time and would often be forced to pay the costs of missed deadlines and cost overruns, even when these problems may have been caused by unsatisfactory performance and inefficiencies on the part of the consultants.

Lack of competition in acquiring other consultants: In the acquisition of non-IT consultants, we found problems such as the following:

- At MBS, a $1.7 million contract to provide management consulting services relating to the government's data network was awarded to a firm without any competition. An open tender process would have been prudent and appropriate in view of the large amount paid to this firm.

Weaknesses in the competitive selection process: We found instances of weaknesses in the competitive selection process, such as:

- At the Ontario SuperBuild Corporation—an agency of the Ministry of Finance—a calculation error resulted in a consultant being awarded a contract as a financial advisor for $681,000. The consultant may not have received the contract if the error had not been made.
- In another case, SuperBuild Corporation's poorly defined evaluation criteria led to the awarding of a $3-million consulting contract, which was double the price bid by the lowest bidder.

An agreement not reflecting the scope of consulting work: A forensic accounting firm was engaged by MBS to review certain real-estate transactions entered into by the Ontario Realty Corporation (ORC). Its estimated fees ranged from $150,000 to $500,000. However, the firm was paid almost $6 million out of ORC's budget for expanded work, and a new contract was not entered into to reflect the revised scope and objectives of the ongoing investigative work.

Not ensuring that consultants' provincial taxes were in good standing: The Ministries frequently did not ensure that consultants' provincial taxes were in good standing as required by their own policies and by statements made in the *1996 Ontario Budget Speech*. For example:

- At MBS, two consultants who received contracts were not registered with the Ministry of Finance, and two other consultants had tax arrears of approximately $110,000 and $35,000 respectively.
- At the Ministry of Public Safety and Security, two consultants who received contracts were in default for not filing corporate tax returns.

Significant weaknesses in controls over payments to consultants: Instances of weak controls included:

- At the Ministry of the Environment and the Ministry of Public Safety and Security, numerous payments were made to consultants that exceeded the ceiling price of contracts, and there was no evidence of prior approvals by the Deputy Minister or designate as required by the Directive.

- At the Ministry of Public Safety and Security, a consulting firm was engaged to monitor and operate computer systems onsite and at remote locations around the province. The arrangement continued for seven months after the contract expired, and the firm was paid, in total, $200,000 above the contract amount.
- At MBS, one consulting firm was reimbursed for meal charges at ten times the rates allowed to government employees, another consultant was mistakenly paid twice an amount over $14,000, and no supporting documents were found for over $36,000 in charges paid to another consultant.
- MBS permitted one consultant's rates to increase significantly, from $725/day in April 2000 to $1,800/day in May 2000 and to $2,600/day in September 2000 without documented rationale for these large increases in the consultant's rate. In another case, a consulting firm, which received almost $450,000 for an engagement, charged the Ministry of Natural Resources hourly rates of $393 and $218 per hour, even though the rates quoted for the engagement were $300 and $200 per hour respectively.

Direction To Ministries

The Directive provides adequate direction and guidance to ministries to ensure that, if followed, the planning, competitive acquisition, and management of the use of consulting services are undertaken with due regard for value for money. However, we identified a number of areas where the VOR arrangements for consulting services established by MBS were inconsistent with the Directive and were insufficient to ensure that ministries using vendors of record receive value for money. This was of particular concern because on May 1, 2000, all ministries were informed by MBS that, effective immediately, the use of the corporate VOR arrangements would be mandatory for the acquisition of all consulting services. The following is a summary of our major concerns.

Approval not obtained for changing directive requirements: MBS established the threshold amount of $500,000 for certain VOR arrangements before an open tender is required. This threshold amount is five times higher than the threshold amount of $100,000 in the Directive. In other cases, MBS did not establish any threshold amounts whatsoever. In establishing a higher amount, it had not obtained approval from the Management Board of Cabinet and also had not recommended changes to the Directive to reflect the higher VOR competitive tendering thresholds.

Lack of equal opportunity for consultants to bid on assignments: The VOR lists include consultants in the same job categories that charge significantly different rates—rates can vary by as much as $2,000 per day. However, MBS guidelines did not require that ministries give qualified consultants on a VOR list an equal opportunity to demonstrate that they can satisfactorily complete a given assignment at the lowest cost.

Unclear guidelines on requirements for open tender: The practice of some ministries was to avoid open tender by subdividing multi-million-dollar IT projects into smaller individual assignments. For example, at the Ministry of Health and Long-Term Care, an IT project that had cost $10.6 million to date had about 50 consultants working on smaller assignments of less than $500,000 each. The Ministry advised us that this practice was in compliance with VOR requirements. There is a need to clarify the VOR guidelines to ensure that the procurement process is open and transparent and that the most qualified consultants are obtained at the lowest costs using an open tender process whenever possible.

OTHER MATTER

We had concerns with respect to the engagement of creative communications consultants at the Ontario Realty Corporation (ORC). For example, one firm had billed ORC over $1 million, but letters of agreement existed only for billings of $210,000.

DETAILED AUDIT OBSERVATIONS

DIRECTION TO MINISTRIES

The Management Board of Cabinet Directive on Consulting Services (Directive) sets out corporate policies and the requirements that ministries must follow in planning for, competitively acquiring, and managing consulting services with due regard for value for money. Ministries must obtain prior approval from the Management Board of Cabinet for any exemption from the requirements contained in the Directive.

Further direction to ministries with regard to acquiring consulting services is provided through the contractual VOR arrangements with multiple vendors established by MBS. These VOR arrangements are for the ongoing acquisition of commonly purchased goods and services, including consulting services, over a specified term and are available to all ministries. MBS's Procurement Policy and IT Procurement Branch establishes and manages corporate VOR arrangements for information technology (IT) consultants, and the Shared Services Bureau establishes and manages corporate VOR arrangements for non-IT consultants.

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Establishing Vendor-of-record Arrangements

To establish VOR arrangements with various categories of consultants, MBS begins with an advertised request for proposals for various types of consulting services used by the government, and each response from an interested consultant is reviewed based on the consultant's experience, qualifications, and the billing rates the consultant submits for a specific type of work. Approved VOR lists are maintained for each specific type of consulting service and include all consultants who successfully met the criteria for inclusion on the lists. Typically, there are many consultants for each type of service. The VOR lists help ministries achieve administrative efficiencies in that much of the work of identifying prospective consultants and evaluating their credentials has already taken place.

Ministries are required to select from the appropriate list the consultant that best meets the needs of the assignment at the lowest cost. For large assignments, the ministry is required to receive competing proposals from several consultants, with the selection being based on the merits of each proposal. The cost of the assignment can vary significantly between consultants, depending on the consultant's approach, the consultant's estimates of the amount of time and work required to complete the assignment, and the consultant's per diem rates on the VOR list.

We noted several areas where the VOR arrangements require improvement to ensure that they reflect the requirements for fairness, openness, and competitiveness in the Directive that help ensure ministries achieve value for money.

- The Directive states that if the estimated ceiling price of an assignment (including fees and expenses) is $25,000 or more, all consulting services must be acquired competitively through a written request for proposals from potential suppliers. Ideally, the acquisition procedure will result in consideration of three or four valid proposals. If the estimated ceiling price is $100,000 or more, a call for open tender is required. However, we noted that, for several categories of consultants, the threshold amount set by MBS for the use of VOR lists was often significantly higher than the amount specified in the Directive. For example, certain VOR arrangements allow a ministry to select a consultant of its own choosing without any competition unless the ceiling price of an assignment is more than $100,000, contrary to the Directive's threshold amount of $25,000. Similarly, the VOR arrangement for IT consultants allows ministries to select from among the consultants on the list without calling for open tender unless the ceiling price of an assignment is more than $500,000, contrary to the Directive's threshold amount of $100,000. The VOR arrangement for alternative-service-delivery consulting services did not even have a threshold amount beyond which competitive selection of consultants and calling for open tender is required.

  In all these cases where the threshold amounts beyond which competitive consultant selection is required were higher under VOR arrangements than in the Directive, there was no documented rationale to justify the higher threshold amounts. In addition, MBS had neither sought approval from the Management Board of Cabinet to set the higher threshold amounts nor had it recommended changes to the Directive to reflect the higher tendering requirements when the VOR process is involved.

- The VOR lists for each specific type of service include a large number of consultants who charge significantly different rates. For example, the following chart compares the lowest and highest rates that vendors on the same VOR lists ask for their services.

Ranges of Per Diem Rates on Two VOR Lists

Job Category	Lowest Per Diem Rate ($)	Highest Per Diem Rate ($)	Difference ($)
VOR List for IT Services—Oracle Environment (Greater Toronto Area)			
Project manager/leader	435	2,340	1,905
Technology architect	435	1,885	1,450
Applications architect	400	1,885	1,485
Data architect/modeler	375	1,600	1,275
Systems analyst	326	1,415	1,089
Programmer/analyst	350	1,290	940
Database administrator	218	1,150	932
VOR List for Alternative Service Delivery Consulting Services			
Partner	1,200	3,350	2,150
Principal	1,200	2,883	1,683
Project manager	900	2,240	1,340
Senior consultant	800	1,790	990
Consultant	700	1,595	895
Business analyst	471	1,268	797

Source of data: Management Board Secretariat

The VOR list for alternative-service-delivery consulting services has 22 firms whose per diem rates vary by over $2,000, while the VOR list for IT services—Oracle environment (Greater Toronto Area) has 116 firms, and the per diem rates vary by almost $2,000. Given such large numbers of firms and varying rates, it is particularly critical that a fair and open competitive selection process be followed by ministries to ensure that the consultant who meets the needs of an assignment will be acquired at the lowest cost. However, MBS guidelines to ministries did not require that qualified consultants on the VOR lists be given an equal opportunity to submit a proposal to demonstrate that they can satisfactorily complete the assignment at the lowest cost. We noted instances where ministries requested proposals from only one or a few consultants, who charged rates at the higher end of the per diem range, and excluded from consideration, perhaps for reasons of unfamiliarity, other consultants who may be qualified and offered a much lower rate for their services.

- For some ministries, we noted that several multi-million-dollar projects, particularly IT projects, were subdivided into individual smaller assignments of less than $500,000. These ministries did not call for open tender for the assignments but rather selected consultants from the VOR lists on a per diem basis to complete the assignments. In that regard, we noted that guidelines provided to ministries by MBS were unclear with respect to when open tender is required. Our two concerns were that guidelines do not address the need for ministries to better define large projects that should be acquired using open tender, and they do not address the need for ministries to require fixed deliverables at a firm price in order to ensure that consultants assume responsibility and some of the risk relating to their work.

  With respect to the first concern, in the view of some ministries, the VOR requirement that consultants for IT assignments of $500,000 or more be acquired through open tender does not mean that ministries cannot subdivide multi-million-dollar projects into many individual smaller assignments; as long as each assignment is distinct and has an estimated ceiling price of less than $500,000, the ministries can select consultants from the VOR lists for the assignments and not follow an open tender process. For example, at one ministry, we noted that about 50 consultants were working on an IT project that had cost $10.6 million to date. The ministry indicated to us that each of the consultants was working on an individual assignment of less than $500,000 and that therefore the ministry was following the VOR requirements in not requesting open tender. There is a need to clarify the VOR guidelines to ensure that the procurement process is open and transparent and that the most qualified consultants are obtained at the lowest costs using an open tender process whenever possible.

  With respect to the second concern, because consultants were engaged on a per diem basis and were not responsible for fixed deliverables, the ministries assumed the risk of consultants not delivering their work on time and were often forced to pay the costs of missed deadlines and cost overruns, even when these problems may have been caused by unsatisfactory performance and inefficiencies on the part of the consultant.

- Ministries are not required to report to MBS on the extent to which VOR arrangements are used. In addition, only IT consultants are requested to report back to MBS the value of the contracts they received from ministries under VOR arrangements. However, such information, when received by MBS, was not complete. Therefore, MBS did not have adequate information on the amount of work that consultants have been engaged to do under VOR arrangements. Such information could be used to monitor the success of the VOR procurement strategy and to obtain better rates from consultants that may receive a significant volume of business from the government.

- The per diem rates proposed by consultants on VOR lists generally remain unchanged for the term of the VOR arrangement; however, in some VOR arrangements, consultants are allowed to periodically change their rates to reflect market conditions.

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Recently, MBS has recommended that ministries not request discount pricing from consultants and that consultants not submit discounted pricing for assignments. According to MBS, the VOR rates that vendors submitted were considered by MBS to be the best rates the vendors could offer. However, we noted that MBS does not obtain guarantees from vendors that the rates submitted are indeed the lowest rates the vendors make available to their major customers, even though such guarantees can usually be obtained from vendors for large-volume customers such as the Ontario government. Since MBS has not obtained the guarantees, we question why MBS is recommending that ministries not negotiate lower prices for their assignments and that consultants be prohibited from offering lower rates in certain situations.

Recommendation

In order for vendor-of-record arrangements to reflect a fair, open, and competitive procurement process that will ensure that ministries receive value for money, Management Board Secretariat (MBS) should ensure that:

- **guidelines are strengthened to clarify the process by which consultants are selected and that ministries are required to follow a formal selection process to give the qualified consultants on a vendor-of-record list equal opportunity to bid on government contracts;**
- **there is a documented rationale to support any departure from the competitive selection requirements of the Directive, authorization from Management Board of Cabinet is obtained for all departures, and the Directive is updated to reflect the requirements of vendor-of-record arrangements;**
- **its guidelines to ministries require that larger projects not be subdivided into smaller assignments to avoid competition and that ministries ensure that consultants assume responsibility for their work by requiring fixed deliverables at a firm price; and**
- **an improved process for collecting information on and monitoring ministry use of vendors of record is established.**

In addition, MBS should, whenever possible, obtain guarantees from consultants that their per diem rates are the lowest available to their major customers. The vendor-of-record list should indicate when these guarantees have not been obtained, in which case ministries should be permitted to negotiate for better rates.

Management Board Secretariat Response

Vendor-of-record arrangements are established through a fair, open, and transparent request-for-proposal process whereby proponents responding to the request for proposals must meet specified mandatory requirements and are then evaluated on their qualifications, experience, understanding of the potential consulting assignments, and the rates submitted for the specific expertise they are offering to provide.

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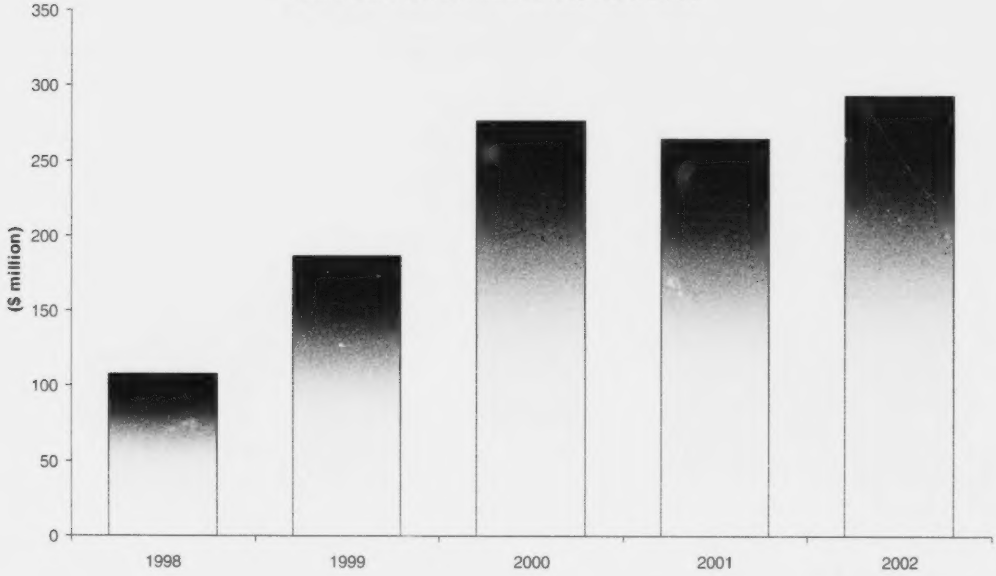
Management Board Secretariat will work with ministries in responding to the findings in this report relating to vendor-of-record arrangements and will develop and make recommendations to the Management Board of Cabinet that the Management Board of Cabinet Directives on procurement be revised to set out and clarify the specific rules relating to vendor-of-record arrangements, including the establishment of thresholds. In addition, Management Board Secretariat will take the necessary steps to address any other issues identified in this report.

In addition, Management Board Secretariat concurs with the recommendation of the Provincial Auditor that vendor-of-record guidelines be strengthened and clarified to ensure that ministries use the agreements properly and appropriately and that vendor-of-record arrangements should seek commitments from vendors that they will offer the best prices for services to the Ontario Public Service that they offer to similar large organizations within Canada. As well, Management Board Secretariat concurs with the recommendation that an improved process for collecting information on and monitoring ministry use of vendors of record be established.

CONCERNS RELATING TO THE USE OF CONSULTANTS AT MINISTRIES

For the 2001/02 fiscal year, the ministries at which we audited consulting arrangements incurred $293 million in consulting expenditures. The following graph summarizes the Ministries' consulting expenditures over the last five years.

Combined Annual Consulting Services Expenditures at the Six Audited Ministries, 1998–2002



Source of data: Ministry of Finance

Continuous Reliance on Consultants and Assignment Definition

We found numerous instances in which the Ministries did not comply with the Directive requirements that:

- consultants must only be hired on a defined assignment;
- for services ultimately costing more than $25,000, competition must not be avoided by awarding the same consultant successive agreements; and
- when appropriate, a transfer of knowledge must occur from consultant to staff to avoid a continuous reliance on consultants.

Specifically:

- Many of the Ministries depended heavily on the use of consultants, particularly in the area of information technology, as the examples in the following table illustrate.

Consultant Use at Ministries, 2001/02

Ministry	# of IT Consultants	# of IT Staff
Management Board Secretariat	170	540
Health and Long-Term Care (Human Services Cluster)	120	350
Public Safety and Security (Infrastructure Service Branch)	100	90
Natural Resources	65	275

Sources of data: Management Board Secretariat, Health and Long-Term Care, Natural Resources, and Public Safety and Security

On average, the per diem rates of these consultants were two to three times the salaries and benefits of comparable employees at the Ministries. As an example, the following table shows how per diem rates for consultants compare to those of staff at the Ministry of Health and Long-Term Care.

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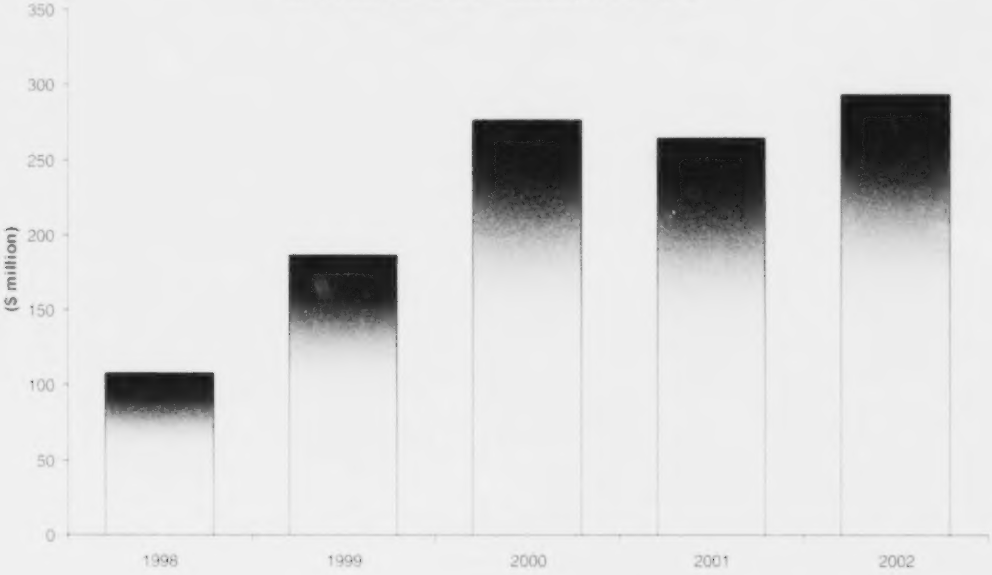

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Comparison of Per Diem Rates of Consultants and Equivalent Staff at the Ministry of Health and Long-Term Care

Classification	Consultant Per Diem ($)	Ministry Staff Per Diem ($)
Project manager	1,088	371
Database administrator	661	346
Desktop specialist	610	275
Client support analyst	600	231
Business analyst	544	284
Programmer analyst	428	231
Overall average per diem rates for all consultants and staff	847	273

Sources of data: Ministry of Health and Long-Term Care, calculations by the Office of the Provincial Auditor

The Ministries acknowledged that many consultants were engaged to perform day-to-day operational duties rather than work on defined assignments. According to the Ministries, the reason that they had to extensively rely on the use of consultants was that, in recent years, they had had more difficulty in obtaining approval and funding to increase the number of their full-time staff and salaries ranges to the levels needed to attract qualified candidates. However, such use of consultants was not in compliance with the requirements of the Directive that consultants only be hired on a defined assignment and that ministries must avoid continuous reliance on consultants.

We also noted that, at the Ministry of Public Safety and Security, more than 40 consultants were former ministry employees who had left the Ministry in 2001 and were subsequently hired by consulting firms. They returned to the Ministry as consultants to perform their previous duties at per diem rates that were much higher than their salaries as ministry employees. The Directive states that engaging the services of former employees must bear the closest public scrutiny to ensure that no unfair advantage exists. Caution must be particularly exercised if less than one year has passed since former staff left the employment of a ministry. In this case, we found that the majority of the consultants came back within a few days of having left the Ministry.

- We noted that, in many first-time contracts with consultants, the consultant was engaged to provide expertise for a short period of time, usually on a three- to six-month contract. Once expired, these contracts were extended with little or no change to the original deliverables. Competitive selection processes were not always followed, and even when they were, they typically resulted in the re-engagement of the original consultants.

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The following are examples of the effects of these questionable practices that we noted from our audit of the Ministries:

- At MBS, a consulting firm was selected to provide one staff person on a per diem basis for the MBS information-technology help desk and site-services support unit. The initial contract awarded in April 2000 was for six months at a cost of $50,000. At the completion of our audit in March 2002, the consulting firm had received three contract extensions, totalling $200,000, without competition and without any substantial changes to the original deliverables.
- In February 1999, a consultant was initially engaged by the Ministry of the Environment to provide technical consulting services for three months at a rate of approximately $540 per day, with total remuneration not to exceed $25,000. Over the following three years, the consultant's contract was renewed or extended seven times without any change in the contracted deliverables, for total remuneration of $455,000. The Ministry informed us that, because of the unique experience and knowledge of the consultant, it had to continuously rely on the consultant's services to avoid disruption to the Ministry's operations. In our view, however, the specialized nature of the consultant's work has made it even more important that a process be established to ensure appropriate knowledge transfer from consultant to ministry staff, since at some point the services of the consultant may no longer be available.
- A consultant was engaged to provide testing services for the Ontario Land Information system of the Ministry of Natural Resources. The consultant was engaged under three successive contracts, with no change to the original deliverables, for services from January 2000 to September 2001, at a rate of over $500 per day, totalling approximately $237,000.
- A consultant was engaged by the Ministry of Health and Long-Term Care in 1999 for an initial term of six months and a price of $96,000. The consultant, who was asked to conduct business- and systems-analysis activities for a branch, received contract extensions that brought the term to two years. There were no appreciable changes to the original deliverables, and the final cost of the assignment after the extensions was $360,000. The consultant was eventually replaced with a full-time staff member at an annual salary of approximately $60,000.

Without clearly defined, tangible deliverables that require the consultant to complete the assignment by a specified date and at a fixed ceiling price, the assignments may be ambiguous, and this ambiguity can often result in the consultants billing over the original, agreed-upon amount.

We also saw little evidence that a formal process was in place to ensure appropriate knowledge transfer from consultants to ministry staff to avoid a continuous reliance on consultants.

- We were also concerned about the lack of sufficient knowledge and experience within the Ministries to carry out senior-level responsibilities and effectively manage the work of consultants. Specifically, we found that the Ministries had to engage senior-level consultants at high costs to oversee projects and manage the work of other consultants. For example, as at March 31, 2002, the Ministry of Health and Long-Term Care had engaged about 15 senior consultants, who charged over $1,200 per day on average, compared to salaries of approximately $340 per day, including benefits, that would have been paid for senior ministry employees at the equivalent level.

Recommendation

To ensure that its requirements are met in the most economical manner, the Ministries should comply with the requirements of the Management Board of Cabinet Directive on Consulting Services by:

- **clearly defining proposed assignments, which involves specifying tangible deliverables, time frames for completion, and related costs, preferably with fixed ceiling prices; and**
- **avoiding continuous reliance on consultants and, when appropriate, ensuring that a transfer of knowledge occurs from the consultant to staff.**

Management Board Secretariat Response

The Secretariat agrees that requirements for consulting services must be met in the most economical manner possible. The Secretariat has initiated the development of a training program for managers on the acquisition and management of consultants to ensure that where consultants are used, it is on the basis of a strong business case and documentation that includes clearly defined details on deliverables, time frames, and related costs.

The Secretariat also agrees that knowledge transfer is essential in order to avoid a continuous reliance on consultants and will take the necessary actions, including through ministry training, to further strengthen the knowledge transfer requirement.

Ministry of the Environment Response

The Ministry acknowledges that consulting contracts should be well defined in advance and reliance on consultants monitored. The Ministry is currently strengthening its capacity to ensure that all contracts are in compliance with Management Board of Cabinet directives.

To ensure all contracts include well documented assignments, the Ministry has developed a procurement checklist for use by all contract managers. The checklist clearly outlines the mandatory contract components to ensure compliance with Management Board of Cabinet directives.

Consultants will continue to provide a resource of temporary expertise that can be purchased to assist the Ministry to do its business. However, the Ministry's new contract management and quarterly reporting system will

ensure regular review by senior management of consultant use across the Ministry to monitor ongoing reliance on consulting services and compliance with directives. This will allow for early detection of problems and prompt management response to any problems that may occur.

Ministry of Health and Long-Term Care Response

The Ministry agrees in principle with the recommendation as a long-term strategy. However, it should be noted that, in some cases, a more cost-effective approach to staffing projects is to bring in outside expertise with the requisite skills and experience for the duration of a project, rather than maintain a large number of full-time staff to accommodate the specialized resource requirements of many of the initiatives. In complying with the government's requirement that ministries effectively manage their staff complement, the Ministry must make decisions that enable it to carry out its mandate while meeting this commitment. Managers make their decisions based on funding allocations and corporate direction.

It should be noted that most recently in the Human Service Cluster's I&IT Secretariat, the work of the fee-for-service consultants is now being undertaken by Ontario Public Service staff. Also, in the Human Services I&IT Cluster's Quality Assurance project, a formal strategy was undertaken to allow for transfer of knowledge prior to the termination of the fee-for-service contracts. This included documentation of quality assurance work completed and processes developed to date, as well as knowledge transfer to recently hired full-time staff.

The Ministry will continue to monitor its use of consultants and raise the awareness of program areas to the need to plan for a transfer of knowledge where possible and appropriate.

Ministry of Natural Resources Response

We will implement the recommendation.

In concert with the Shared Services Bureau, we will improve procedures to more clearly define assignments, including specifying deliverables and fixed ceiling prices.

In the case of the Ontario Land Information system, we are in the process of operationalizing the developmental and testing components and transferring this knowledge to a core staff team. This will help minimize reliance on consultants and ensure skills transfer to ministry staff.

Ministry of Public Safety and Security Response

The Ministry has developed tools and processes to ensure that consulting assignments are adequately defined, deliverables and time frames specified,

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and ceiling prices and other terms and conditions clearly documented. The introduction of these tools and processes began in December 2001, and therefore the results of the improvement to internal controls were not yet reflected at the time of the audit.

To address increasing workloads in the absence of adequate staffing levels, particularly in the area of information technology, the Ministry has been required to use consultants to continue providing critical technical support to front-line service delivery. In addition, a considerable amount of work is project-based and requires short-term infusion of highly specialized skills. In these cases the Ministry will define the requirements and access consulting and other specialized resources through consulting contracts with defined deliverables.

Many information technology (IT) skills are still in very short supply within the Ontario Public Service, and we will continue to need to fill gaps with consultants. We are moving on a number of fronts concurrently to actively address the skill gap— the IT internship program, specific recruitment approaches for specialized skills, retention, and succession planning so that qualified staff are available to assume critical roles where required.

With respect to the transfer of knowledge, for defined assignments, it is ministry policy to ensure that the transfer of knowledge and expertise by the consultant to ministry staff takes place at the conclusion of each consulting assignment. We will reinforce that policy.

Justification for the Use of Consultants

The Directive states that a ministry must not purchase external consulting services prior to considering existing ministry resources. Known resources available from other ministries must also be considered. The majority of ministries did not demonstrate that they determined whether resources, both within the ministry and in other ministries, were available before purchasing external consulting services. Staff at the Ministries expressed the opinion that the lack of available skills and resources was obvious and previous attempts to identify qualified internal resources had proven to be unsuccessful.

Proper evaluation and documentation of available resources and anticipated skill shortages could help management identify recurring areas where training or hiring staff with the required skills would be a more cost-effective long-term strategy for obtaining needed services than engaging consultants.

Recommendation

To ensure that needed services are obtained in the most economical way possible, prior to hiring consultants the Ministries should conduct a proper evaluation of available resources both within the Ministries and in other

ministries, document the results, assess alternatives to using consultants, and, where the services of consultants are considered necessary, justify the engagement of consultants.

Management Board Secretariat Response

The Secretariat concurs with the recommendation and will improve its evaluation of the availability and skills of internal resources before engaging outside consultants. In addition, the Secretariat is in the process of implementing a strategy to address internal skills requirements, consisting of an information technology internship program, specific recruitment approaches for specialized information technology skills, retention, and succession planning, so that qualified staff are available to assume critical roles where required.

Ministry of the Environment Response

The Ministry acknowledges the need to improve its documentation to justify the use of consultants. The Ministry's action plan will include training sessions to increase awareness among key personnel of the need for better documentation and evaluation of the need to hire consultants and a requirement that staff complete and document a resource-needs evaluation. Technical co-ordinators will be responsible for the review of contracts in order to ensure that all proper procedures are followed and documentation is complete.

Ministry of Finance Response

We agree with the recommendation. In future, we will document why existing staffing resources are not able/available to handle the proposed assignment and/or any other reasons for retaining outside consultants.

The Office of the Provincial Controller has been doing this as a matter of normal operational practice in the past but has not documented it. The evaluation is somewhat subjective and not formalized, but it is based on personal knowledge within the management group that is actively involved in arriving at this conclusion and includes both the availability of Ministry of Finance staff and the financial community in the Ontario Public Service (OPS). Due to the current demand for financial expertise in the OPS (for both ministry and corporate initiatives such as the Integrated Financial Information System), it is extremely difficult to find qualified internal expertise at this time.

Ministry of Natural Resources Response

We will implement the recommendations and improve our documentation.

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Ministry of Natural Resources Response

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In some specialized areas of the Ministry's business such as water control structure engineering and specialized systems development, we have made an organizational decision to increase the use of specialized knowledge that exists within the private-sector industry as we are not aware of an additional or available source of expertise within our own or other ministries.

Ministry of Public Safety and Security Response

It is a ministry requirement to conduct evaluations of existing staff resources prior to determining that the use of outside consultants is required. The Ministry acknowledges that documentation of the results of the evaluation is generally inadequate. The Ministry has introduced enhanced internal controls related to the acquisition of consultants including a compliance control process that will ensure all aspects of the business case for the use, acquisition, and monitoring of consulting services are properly documented in accordance with Management Board of Cabinet Directives.

Competitive Selection of Consultants

We concluded that the Ministries' procedures for the competitive selection of consultants were inadequate to ensure that the Directive and MBS requirements were followed. In particular, we found numerous cases where, in the development of multi-million-dollar IT projects, the Ministries did not comply with MBS requirements regarding the acquiring of consultants from the IT VOR list.

As indicated earlier, the use of consultants from the IT VOR list is limited to projects with an expected cost of $500,000 or less; above that amount, an open tender process is required. This requirement is intended to ensure that the most qualified consultants are acquired at the best available price, and that all suppliers of consulting services are given fair access and treated in an open and transparent manner.

However, we found that, even where the amounts spent on the projects exceeded $500,000, the Ministries did not follow an open tender process. Instead, the Ministries elected to engage consultants from the VOR list on successive contracts to work on these projects. Some ministries maintained that, by engaging consultants directly from the list to do the work, they would have more control over the consultants. However, this practice did not comply with the requirement for open tender.

As indicated earlier, by compensating consultants on a per diem basis rather than with a fixed price and on fixed deliverables, the Ministries assumed the risk of consultants not delivering their work on time and would often be forced to pay the costs of missed deadlines and cost overruns, even when these problems might have been caused by unsatisfactory performance and inefficiencies on the part of the consultants.

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In addition to not following an open tender process, in many instances the Ministries did not request written proposals from at least several potential suppliers, did not conduct and write up evaluations of proposals, and, when an evaluation was carried out, did not always select the most qualified consultants at the lowest cost.

The following are examples of our observations from our audit of the Ministries.

Management Board Secretariat

The first example involves a contract awarded to a consulting firm in April 2000 to assist in selecting a vendor to assume responsibility for certain network data functions and components. The assignment was defined as having several phases: defining the request-for-proposal process; assisting in the development of the request-for-proposal documents; and negotiating a contract. We were advised that the contract was awarded to this consulting firm by selection from the vendor-of-record list; however, there was no documentation available to support the selection of the firm. The rates the consulting firm charged for its various consultants ranged from $1,025 to $2,950 per day, and a total of over $1.7 million had been paid to the firm as of February 2001. We were advised that the guidelines for this VOR list did not include a stated requirement that ministries must document the decision process used to select the chosen vendor over the several other vendors on the list. We were also informed that this VOR list, in contrast to other VOR lists, did not include a threshold amount over which an open tender process is required. In view of the large amount of money paid to this firm, it would have been prudent and appropriate for MBS to have considered alternative firms in making its selection for this assignment and to have documented the rationale for choosing the selected consulting firm.

The second example involves the selection of an IT consulting firm in April 2000 to provide services relating to a management improvement project. We found that only two VOR companies were contacted and requested to submit proposals. In addition, there was no written evaluation of the proposals providing the reasons for awarding the contract to the successful bidder. The firm selected, which had estimated its fees to be $1.4 million, had eventually received payments totalling approximately $467,000 when MBS cancelled the project.

Ministry of the Environment

At the time of our audit, the Ministry was in the process of developing a project called Environet. This project was initiated in the summer of 2000 to automate, through the use of the Internet, the exchange of information between the public, other stakeholders, and the Ministry. The Internet site being developed by the project was to have the following six initial components: the Drinking Water Monitoring/Compliance Information System; the Air Emissions Inventory System (OnAir); the Hazardous Waste Information Network; the Provincial Groundwater Monitoring Information System; eLAB—a system for the delivery of environmental information to laboratories and other databases; and SWAT—applications and tools used to assist in the enforcement of regulations relating to soil, water, and air. The

Ministry's estimate of the cost of developing these components was approximately $17.6 million.

Development work on the Hazardous Waste Information Network and the SWAT component of the Internet site went to open tender, which resulted in the Ministry's receiving bids for both assignments that were lower than the Ministry's original cost estimates. In particular, the SWAT component was developed at a final cost of $3.5 million, compared to an initial ministry cost estimate of $6.2 million.

The Ministry subdivided the development work for the other four components into individual assignments and engaged consultants on a per diem basis from the MBS VOR list to do the assignments. The Ministry's individual cost estimates for three of the four components ranged from $1.1 million to $4.2 million, while its estimate for the fourth component was $400,000. As indicated earlier, MBS's VOR-list policy allows for the estimated ceiling price of an IT assignment to be up to $500,000 before open tender is required. Given that the Ministry's estimates for three of the components were above the $500,000 threshold, the Ministry did not follow the MBS requirement for an open, fair, and transparent competitive process for those three contracts.

According to the Ministry, the reason for selecting consultants on a per diem basis from the VOR list was that the business requirements for the four components had not been completely defined. By not completely defining the project and undertaking an open competition, the Ministry had no assurance that it had obtained the best price and also increased the risk of cost overruns on the project. In addition, without a clear understanding of what is needed, the ultimate system may not meet the requirements of the users of the system.

We also found the following problems with respect to the engagement of consultants from the VOR list for this project:

- In the case of the OnAir component, on two occasions the Ministry had given two consultants equal ratings but in each case elected to go with the vendor that charged the higher per diem rate. The Ministry could not provide any reason or documentation explaining why these vendors, who cost $130,000 more in total, were chosen instead of the two that had received equivalent ratings and offered lower per diem rates.
- In the case of the eLAB component, a ministry selection panel interviewed three firms in search of the best one to provide consulting services. The panel rated one of the firms as clearly more suitable in terms of both qualifications and price. However, without any explanation, the assignment, which was for $316,000, was awarded to the firm rated second, which had less experience and submitted a higher bid. The Ministry explained that the highest-rated firm was not awarded the assignment because it had already been awarded a previous assignment. Subsequently, the firm rated second was awarded another contract for the second phase of the same assignment at a price of $375,000. In the case of that contract, the Ministry had sent a request for proposals to four vendors, but the only bid received was from the firm that had previously worked on the project.

Ministry of Finance

For contracts awarded by the Ontario SuperBuild Corporation—an agency of the Ministry of Finance, insufficient care was taken in awarding contracts, as is illustrated in the following example.

- When evaluating proposals submitted by consultants for the assignment of providing financial advice on the divestment of certain Crown assets, an error was made in calculating the scores from the bidders' evaluation scores.

  In April 2000, two consultants were jointly awarded the contract on the basis of the original ranking, and each received $681,000. However, had the scores been correctly calculated, one of the two consultants may not have received a contract.

  In addition, these two consultants were not required to sign formal agreements; instead, only purchase orders were issued. There was no explicit division of duties and no deliverables associated with each purchase order. This makes it difficult to hold consultants accountable for their performances.
- In another case, Superbuild Corporation's poorly defined evaluation criteria led to the awarding of a $3-million consulting contract, which was double the price bid by the lowest bidder.

Ministry of Health and Long-Term Care

We noted that the Ministry did not follow the requirements for an open tender process on three multi-million-dollar information technology projects that were under development. On each project, the Ministry's approach was to subdivide the project into smaller individual assignments and select consultants from the VOR list on a per diem basis to complete the work. Specifically:

- In October 2000, Cabinet approved the establishment of a transfer-payment agency, called the Smart Systems for Health Agency, to provide and manage a secure, province-wide information network for the exchange of health information among Ontario's health-care providers. The original five-year operating budget for the agency was projected at $488 million. This budget was not approved, and the agency has been allocated funds on an annual basis. At the time of our audit, the Ministry had yet to establish the agency and anticipated that it would be established by September 2002. In the meantime, the Ministry had already begun development of the network, taking the approach of engaging consultants from the VOR list on a per diem basis. As at March 31, 2002, in addition to having nine full-time staff on the project, the Ministry had engaged more than 65 consultants from various firms at per diem rates that ranged from $435 to $2,150. For the 2001/02 fiscal year, the Ministry had spent approximately $12.7 million on consultants engaged on a per diem basis.
- In the 1998/99 fiscal year, the Ministry initiated the development of the Integrated Services for Children Information System, which is designed to identify and co-ordinate information for the protection of potentially vulnerable children. The Ministry's

estimated costs for the system were approximately $6 million for initial development and $760,000 per year for ongoing support and maintenance. As at March 31, 2002, about 50 consultants were working on the project on a per diem basis, and the total amount spent was $10.6 million, of which $8.5 million pertained to development costs. According to management, the project was about 80% complete, and another $3 million was needed to bring the system into full production.

- The MBS requirement for open tender was also not followed for a project to define and implement quality-assurance processes in the area of information technology. The cost of engaging consultants on a per diem basis to develop this project was estimated to be $5.9 million.

In these sizeable projects, the Ministry assumed a major risk of consultants not delivering their work on time and of cost overruns, even when these problems were caused by a consultant's poor performance. It is therefore highly doubtful that the Ministry obtained value for money by not adhering to the Directive.

Ministry of Natural Resources

In 1998, the Ministry initiated a project called MNR ON-Line to develop and implement a strategy for electronic access to the Ministry's information and services. The Ministry's approach has been to engage consultants from the MBS VOR list on a per diem basis to carry out the required work. The work has included assisting in the development of a feasibility study, defining the requirements of the project, and implementing the infrastructure. As of March 31, 2002, approximately $1.9 million had been spent on this project. We have the following concerns with respect to the process for acquiring consultants for the project:

- We would have expected the Ministry to have known that the MNR ON-Line project would cost over $500,000 and therefore to have issued an open tender. However, we noted that, with the exception of the project manager, the Ministry engaged consultants on a per diem basis from the MBS VOR list without going to open tender and thus failed to meet Directive and MBS requirements.
- Although the Ministry had prepared an annual budget for consulting services expenditures, it had not estimated the total cost and time required to complete the project.

The lack of open competition and an accurate cost estimate has made it difficult to assess whether the final cost of the project is reasonable, making it doubtful whether value for money has been achieved.

Ministry of Public Safety and Security

Our audit identified a number of instances where the requirements for competitive selection were not being followed. For instance:

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- In August 2000, the Ministry initiated the Information Technology Service Management Project to develop an e-service portal that would enable electronic service management for the Justice Cluster. The Ministry's approach to project development was to engage a consulting firm from the VOR list to provide per diem consultants to define the project's requirements and carry out the required development work. The latest information we had available at March 31, 2002 indicated that the total amount spent on the project was $3 million. As indicated earlier, an open tender process is required for any IT assignment with an estimated ceiling price of over $500,000.

  We noted that the consulting firm engaged by the Ministry had sub-contracted some of the work for the project to another consulting firm on the current VOR list. Had the Ministry followed an open tender process, it could have received competing bids directly from this sub-contractor and other consulting firms.

- Whenever a ministry plans to select a consultant from the VOR list for an IT assignment estimated to cost between $100,000 and $500,000, it is required to send a request for resources to at least three vendors from the list. It is then to evaluate the proposals received based on prices quoted and the qualifications of the vendors. However, we noted that, for many assignments, the Ministry acquired the services of consultants from the VOR list without competition.

It is doubtful whether the Ministry obtained value for money in these projects.

Recommendation

To ensure that consulting services are acquired at the best available price, the Ministries should:

- **follow the competitive selection requirements of the Management Board of Cabinet Directive on Consulting Services and Management Board Secretariat;**
- **on the basis of its evaluation of the experience, qualifications, and submitted bids of all the consultants capable of completing the assignment to the satisfaction of the Ministry, select the highest-ranked consultant; and**
- **adequately document the selection process and retain the documentation for use in supporting its decisions.**

Management Board Secretariat Response

As mentioned earlier, Management Board Secretariat will work with ministries in responding to the findings in this report relating to vendor-of-record arrangements and will develop and make recommendations to the Management Board of Cabinet that the Management Board of Cabinet Directives on procurement be revised to set out and clarify the specific rules relating to vendor-of-record arrangements, including the establishment of thresholds. In addition, Management Board Secretariat will take the necessary steps to address any other issues identified in this report.

- In August 2000, the Ministry initiated the Information Technology Service Management Project to develop an e-service portal that would enable electronic service management for the Justice Cluster. The Ministry's approach to project development was to engage a consulting firm from the VOR list to provide per diem consultants to define the project's requirements and carry out the required development work. The latest information we had available at March 31, 2002 indicated that the total amount spent on the project was $3 million. As indicated earlier, an open tender process is required for any IT assignment with an estimated ceiling price of over $500,000.

  We noted that the consulting firm engaged by the Ministry had sub-contracted some of the work for the project to another consulting firm on the current VOR list. Had the Ministry followed an open tender process, it could have received competing bids directly from this sub-contractor and other consulting firms.

- Whenever a ministry plans to select a consultant from the VOR list for an IT assignment estimated to cost between $100,000 and $500,000, it is required to send a request for resources to at least three vendors from the list. It is then to evaluate the proposals received based on prices quoted and the qualifications of the vendors. However, we noted that, for many assignments, the Ministry acquired the services of consultants from the VOR list without competition.

It is doubtful whether the Ministry obtained value for money in these projects.

Recommendation

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In each of the cases cited, the vendors were selected from a vendor-of-record arrangement established through a fair, open, and transparent request-for-proposal process. The Secretariat concurs that it must ensure that appropriate documentation is completed and retained with respect to its selection process for consulting services. The Secretariat will take the necessary steps, including appropriate guidance and training for the selection of vendors from vendor-of-record arrangements, to ensure that appropriate procedures are followed.

Ministry of the Environment Response

The Ministry acknowledges the importance of ensuring that consultants are acquired at the best available price.

The period covered by the consulting services audit covered a time in which the Ministry was responding to the Walkerton emergency. The Walkerton emergency placed the Ministry under tremendous pressure to deliver immediate solutions. Major information technology improvements such as the Drinking Water Management and Compliance Information System were being developed as the detailed specifications and consultant requirements were being defined.

However, the Ministry will implement the following actions to ensure the requirements of the competitive selection process are met in the future:

- *using a standard contract tracking form and procurement checklists in order to identify all mandatory steps in the contracting process that will be retained in all contract files;*
- *training all key staff (technical co-ordinators) to improve ministry awareness of the steps required to ensure a competitive process is undertaken;*
- *dedicating a staff position within the Ministry's Business and Fiscal Planning Branch for procurement and contract monitoring and developing strong links to the Shared Services Bureau to ensure that advice on procurement issues is readily available;*
- *establishing and staffing a dedicated, full-time controller position to strengthen overall business processes for procurement and contract management within the Information Management and Technology Branch to assist information technology staff in meeting guidelines and providing strategic business advice; and*
- *providing quarterly reports to senior management on the competitive tendering of contracts to improve the overall monitoring of the use of competitive tendering processes for consulting contracts.*

Ministry of Finance Response

SuperBuild has since adopted the practice of a second-level review of competition results using the Shared Services Bureau. SuperBuild also accepts and will adopt the recommendation to ensure that evaluation criteria

be clearly defined prior to the close of the request for proposals and that written agreements be entered into prior to work commencing. However, we note that, in cases of emergency, Management Board of Cabinet directives allow work to commence with only a verbal agreement having been made and to continue until a written agreement can be put in place.

Staff involved with project management will be made aware of the recommendation by September 2002, via memos and staff meetings .

Ministry of Health and Long-Term Care Response

We do agree that hiring consultants to do the work on large projects on a per diem basis may not necessarily be the most appropriate methodology. However, the intent of the vendor-of-record arrangement appears to be subject to interpretation and will need to be clarified in consultation with Management Board Secretariat to ensure ministries use vendor-of-record lists more consistently.

Ministry of Natural Resources Response

We will implement the recommendation. We appreciate your conclusion that the Ministry follows a competitive selection process and obtains necessary approvals prior to hiring consultants.

MNR ON-Line is a multi-year initiative to develop and implement electronic access to a significant and diverse amount of the Ministry's information and services. The Ministry has proceeded with a prioritized list of individual projects to achieve its long-term goal. While we believe there is a need to harmonize the application of the vendor-of-record policy with the consulting services policy, we will improve our project definition, especially if hiring consultants on a per diem basis, to avoid the potential of work and cost overruns.

Ministry of Public Safety and Security Response

The Ministry acknowledges that, in some instances, it has not complied fully with the requirements of the Directive on Consulting Services. The Ministry has developed processes, tools, and other controls designed to increase awareness and understanding and to support consistent compliance with the requirements of the Directive by staff across the Ministry. These include the strengthening of corporate and divisional controllership capacity, including enhanced capacity for the provision of advisory services on financial policies and practices.

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An MBS Agreement with a Consultant

On March 3, 2000 a forensic accounting firm was engaged by MBS to review certain real-estate transactions entered into by the Ontario Realty Corporation (ORC), an agency of MBS. There had been allegations that ORC had sold land below market value. The firm was selected from the VOR list for estimated fees ranging from $150,000 to $500,000. A formal competitive acquisition process was not followed due to the urgent nature of the assignment. The contract between the firm and MBS was signed on March 23, 2000.

The scope of the original agreement specified that the firm perform a detailed review of eight closed sales and a limited review of all remaining properties sold between January 1, 1998 and March 31, 2000. However, the scope of the transactions to be reviewed increased substantially. The scope of the consultant's services also increased to include civil litigation, property investigation, and environmental work.

An August 2000 memo from the Chief Internal Auditor to the Secretary of MBS dealt with the expanding scope of the investigation. It indicated that the current investigation had reached the limit of the original terms of reference and that the original contract had been entered into to deal with an urgent need for immediate action. He recommended that if work was to continue, the March 23, 2000 contract should be ended and new contracts entered into to reflect the revised scope and objectives of the ongoing investigative work. He further recommended that approvals and authorization for the new contracts should be clear and that contract management and payment responsibility should be clarified.

We were informed that some revisions were made to the original contract, such as a more comprehensive detailing of the work to be performed, establishment of a ceiling price and date limit, establishment of a joint governance structure with ORC, and establishment of an approval-and-authorization process with ORC for invoice approval and payment. However, although we were informed that the above described revisions were followed, this revised contract was never signed by all parties, and thus the firm was paid for its work without the expanded work being reflected in the contract.

During the 2000/01 fiscal year, billings from the forensic accounting firm, which were paid out of ORC's budget, amounted to almost $6 million. ORC's board of directors also expressed concerns about the expanding scope of the audit and the management of the contract. We were informed that, subsequent to the board meeting at which these concerns were raised, a joint governance structure was established whose responsibilities included ensuring that funds were being expended appropriately.

Recommendation

In order to properly monitor project progress, control project costs, and determine the extent to which deliverables are achieved, Management Board Secretariat should enter into a new or revised contract with a consultant whenever the scope and objectives of the consultant's original contract are

revised, and the new or revised contract should reflect the changes in scope and/or objectives.

Management Board Secretariat Response

We agree with the Provincial Auditor's recommendation. We recognize the importance of compliance with good contract procurement and management practices. When the scope was better defined, we ensured that the specific deliverables of the firm were provided in accordance with the informally agreed-to revisions.

Tax Compliance Forms

In accordance with the internal policy of the Ministries and statements made in the *1996 Ontario Budget Speech*, all bids that vendors submit to the government must include a declaration that the vendor's provincial taxes are in good standing.

The majority of the Ministries did not ensure that potential consultants submitted the required tax compliance declaration. Even when consultants did submit the required tax compliance declarations, we found that the Ministries did not provide that information to the Ministry of Finance to enable verification that the consultants' provincial taxes actually were in good standing. A check by the Ministry of Finance on the tax compliance of the consultants in our sample indicated the following concerns:

- At MBS, two vendors that had received contracts had Ontario addresses not registered with the Ministry of Finance, making it impossible to check their tax compliance. Two other vendors had tax arrears of approximately $110,000 and $35,000 respectively. One of these vendors was also in default for not filing employee health tax returns.
- At the Ministry of Natural Resources, two companies with Ontario addresses, which had received contracts of $24,999 and $92,400 respectively, were not registered on the Ministry of Finance's tax roll.
- At the Ministry of Public Safety and Security, two vendors that received contracts were in default for not filing corporate tax returns.

Recommendation

Prior to engaging the services of a consultant, the Ministries should:

- **ensure that the consultant has submitted the required tax compliance declaration to confirm that the consultant is in good standing with the provincial tax authority; and**
- **forward the tax compliance declarations to the Ministry of Finance to enable verification that every consultant who submits the tax compliance form is actually in compliance.**

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Management Board Secretariat Response

The Secretariat will ensure that managers are trained on the need to obtain tax compliance forms from the firm prior to awarding a contract. The training will advise managers of the required procedures to file the form with the Ministry of Finance and maintain a copy in the contract file for reference purposes, as required under the Directive on Consulting Services.

The Secretariat will request that the Ministry of Finance assess the associated administrative requirements and develop guidelines, as appropriate, regarding verification of a consultant firm's tax compliance status prior to the completion of the assignment.

Ministry of the Environment Response

The Ministry recognizes the importance of ensuring consultants' provincial taxes are in good standing. The Ministry will require the use of procurement checklists that identify all contract requirements, including the need to ensure the submission of a tax compliance form. The ministry training program being developed for implementation in the fall will ensure that staff are aware of these requirements.

Ministry of Finance Response

We agree with the recommendation regarding tax compliance and will pursue with Management Board Secretariat the inclusion of the submission of the tax compliance declaration as a requirement in the Management Board of Cabinet Directive on Consulting Services.

To strengthen compliance with the Management Board of Cabinet directives on consulting services and to create greater awareness of procurement practices and requirements for consulting services, we have asked the Manager of Modern Controllership Training in our Office to explore with the Shared Services Bureau the development of a training course for managers and other stakeholders.

Ministry of Health and Long-Term Care Response

We agree with the recommendation and will reinforce with program staff the requirements relating to the tax compliance form.

Ministry of Natural Resources Response

We will implement the recommendation. In concert with the Shared Services Bureau, we will confirm all consultants' tax status.

Ministry of Public Safety and Security Response

The Ministry will consult with the Ministry of Finance to determine what process(es) can be established to ensure that the accuracy of tax compliance forms can be verified and to identify any related issues and impacts.

Controls Over Payments to Consultants

Our audit identified significant weaknesses in financial controls over payments to consultants at four of the ministries we audited. The following are our more significant observations.

- At MBS, we identified several instances of invoicing errors and questionable charges for which supporting documents could not be provided, as follows.
  - In August 2001, a consultant was paid $14,518 twice for the same invoice. After we informed MBS of this overpayment, arrangements were made to recover it.
  - Supporting documents for over $36,000 in charges paid to a consultant in December 2000 could not be provided to us by MBS.
  - MBS permitted a consulting firm to significantly increase its rates for two of its consulting staff over a short period of time, as follows:
    - One consultant's rates increased from $725/day in April 2000 to $1,800/day in May 2000 and to $2,600/day in September 2000.
    - The second consultant's rates increased from $906/day in April 2000 to $1,450/day in May 2000.

    We were advised by MBS that these consultant rates were questioned in the fall of 2000 and that these rates were agreed to in January 2001 after MBS's review. However, no documentation was provided to us to support MBS's review or its rationale for allowing large increases in the consultants' rates.
  - Of a total of $90,000 in payments made to a consulting firm for travel expenses from December 2000 to May 2001, over $40,000 in payments were made either without proper support or with questionable claims (for example, some claims made for meal charges were at ten times the rates allowed to government employees). In August 2001, an internal audit had identified the problem and, as a result, $7,500 in reimbursement was obtained from the firm.
- At both the Ministry of the Environment and the Ministry of Public Safety and Security, we found numerous examples of payments to consultants that were made without a valid contract in place to indicate the terms and conditions of the consulting arrangement or exceeded the ceiling price of contracts. In one example, we found that payments totalling $760,000 made by the Ministry of Public Safety and Security to a consulting firm were not supported by a formal agreement. We were informed that the

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payments were related to consultants performing day-to-day duties for the Ministry. In another example, a consulting firm was engaged by the Ministry to monitor and operate computer systems onsite and at remote locations around the province. The arrangement continued for seven months after the contract expired, and the firm was paid, in total, $200,000 above the contract amount.

In cases where ceiling prices were exceeded, we found no evidence of prior approvals by the Deputy Minister or designate, as required by the Directive. As well, we found no evidence of documentation of changes to the terms and conditions of the assignments that would have accounted for the amounts charged.

- The Ministry of Natural Resources did not require that invoices be approved by the project manager prior to payment. As a result, it was unclear who was responsible for ensuring that invoices were checked for accuracy, corresponded to the terms of the contract, and were coded correctly to the proper account. For example, we found one case in which the per diem rates charged by a consulting firm were higher than the rates quoted. The firm, which received just under $450,000 for the engagement, charged hourly rates of $393 and $218 per hour, even though the rates quoted for the engagement were $300 and $200 per hour respectively. The Ministry indicated it would recover the overpayment after we brought this to the attention of management.

Recommendation

To ensure that all payments to consultants are in accordance with valid contracts and made only for work performed, the Ministries should:

- **ensure that approvals at the appropriate level are obtained for consulting service invoices submitted for payment;**
- **require that payments be made only when there is a valid contract in place; and**
- **monitor payments for adherence to the agreed-upon price in contracts and allow amounts in excess of the agreed-upon price only if those amounts are justified, formally agreed to, and accompanied by proper approval.**

Management Board Secretariat Response

The Secretariat is tightening controls on payment processes through implementation of its revised delegation of authority framework and through training on the associated payment-process-verification controls (in conjunction with the Shared Services Bureau). As part of its procurement training program, managers will be reminded of the need to ensure that payments are only made based on the stipulated terms of the contract and in compliance with applicable directives. In addition, the procurement training program will address the need for managers to ensure that consultants' contractual terms align with the Ontario Public Service Directive limits for expense reimbursements and that managers make consultants aware of, and make consultants adhere to, these limits.

Ministry of the Environment Response

The Ministry acknowledges that improvements need to be made to ensure that all payments made to consultants are legitimate and made only for work performed.

The Ministry's financial delegation of authority and policies are being revised and streamlined for more efficient and controlled procurement practices, and training sessions will be held for all staff involved in procurement.

The Ministry has met with Shared Services Bureau finance staff to ensure that payments are only made when a valid contract is in place and payments do not exceed the ceiling price.

The Ministry's new internal tracking and reporting system for consulting contracts will also ensure that payments are properly managed and tracked against ceiling prices.

Ministry of Natural Resources Response

We will implement the recommendation.

It is our normal practice to require project managers to review and approve invoices for payment. We will reiterate this requirement to our staff.

In the case of the per diem variance, this contract was completed very much to our satisfaction, within the total price quoted. We will, however, recover the per diem overpayment.

Ministry of Public Safety and Security Response

As mentioned previously, commencing in December 2001, the Ministry introduced a number of processes and tools to improve its control and management of contracts. Measures include the strengthening of divisional controllership capabilities as well as the development of a contract-tracking database to assist in controlling contract expenditures against established ceiling amounts.

Managing and Controlling the Use of Consultants

The Directive states that ministries must be prepared to provide a report on their ability to effectively manage the process of planning for, acquiring, and managing consulting services. Specifically, the report is to include:

- a detailed summary of the use of consultants during the reporting period and a review of ministry practices with respect to each principle and requirement of the Directive;
- information on all agreements for which a firm ceiling price was not established;

payments were related to consultants performing day-to-day duties for the Ministry. In another example, a consulting firm was engaged by the Ministry to monitor and operate computer systems onsite and at remote locations around the province. The arrangement continued for seven months after the contract expired, and the firm was paid, in total, $200,000 above the contract amount.

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Recommendation

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- **require that payments be made only when there is a valid contract in place; and**
- **monitor payments for adherence to the agreed-upon price in contracts and allow amounts in excess of the agreed-upon price only if those amounts are justified, formally agreed to, and accompanied by proper approval.**

Management Board Secretariat Response

The Secretariat is tightening controls on payment processes through implementation of its revised delegation of authority framework and through training on the associated payment-process-verification controls (in conjunction with the Shared Services Bureau). As part of its procurement training program, managers will be reminded of the need to ensure that payments are only made based on the stipulated terms of the contract and in compliance with applicable directives. In addition, the procurement training program will address the need for managers to ensure that consultants' contractual terms align with the Ontario Public Service Directive limits for expense reimbursements and that managers make consultants aware of, and make consultants adhere to, these limits.

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In the case of the per diem variance, this contract was completed very much to our satisfaction, within the total price quoted. We will, however, recover the per diem overpayment.

Ministry of Public Safety and Security Response

As mentioned previously, commencing in December 2001, the Ministry introduced a number of processes and tools to improve its control and management of contracts. Measures include the strengthening of divisional controllership capabilities as well as the development of a contract-tracking database to assist in controlling contract expenditures against established ceiling amounts.

Managing and Controlling the Use of Consultants

The Directive states that ministries must be prepared to provide a report on their ability to effectively manage the process of planning for, acquiring, and managing consulting services. Specifically, the report is to include:

- a detailed summary of the use of consultants during the reporting period and a review of ministry practices with respect to each principle and requirement of the Directive;
- information on all agreements for which a firm ceiling price was not established;

- information on all agreements in which an increase in ceiling price occurred;
- information on all follow-on agreements that were not tendered; and
- information on all agreements with a ceiling price of between $25,000 and $99,999 in which non-competitive acquisition procedures were used.

The majority of the Ministries had not established adequate systems and procedures to monitor the use of consultants by program area to ensure that consulting services were acquired economically and to identify areas where management practices and controls needed to be improved.

If such information could be readily produced, it would allow the Ministries to undertake overall monitoring activities such as: comparing the estimated and actual costs of assignments to determine if their estimating procedures needed to be improved; assessing whether or not adequate explanations were given for assignments that were not acquired competitively; and establishing whether or not justification existed for increases in assignment costs over the contract ceiling price.

In view of the hundreds of millions of dollars spent on consulting services, the Ministries would benefit by having regular monitoring information on these significant expenditures and their performance in meeting the requirements of the Directive, in that such information would allow for timely corrective action.

Recommendation

To help ensure that consulting services are acquired, managed, and controlled appropriately and economically, the Ministries should establish an adequate system for maintaining management information on the use of and payments to consultants by the various program areas. The information should be used for monitoring the effectiveness of the use of consultants by the Ministries and for identifying areas where management practices need to be improved.

Management Board Secretariat Response

The Secretariat will identify and implement improvements to current management information systems to ensure that we have appropriate information on the use of consultants and can assess where management practices may need improvement.

Ministry of the Environment Response

The Ministry acknowledges the need to properly manage and control the use of consultants. A key element of the Ministry's action plan to improve consulting contract management will be the introduction of a new tracking and reporting system for all consulting contracts.

Quarterly reports, containing contract information by division and program area, will be prepared for senior management for control and monitoring purposes. The reports will provide early alerts to problems in order for immediate follow-up and resolution.

Ministry of Health and Long-Term Care Response

Agreed.

The Ministry's current consultant procurement process includes preparation of a business case that includes an assessment of the most appropriate acquisition process. Documented justification is also required for any amendments to initial contracts that will increase the original ceiling price.

In its training sessions on procurement and the educational tools provided to program staff, the Ministry does review the best practices that should be used to manage and control consultants. The Human Services Cluster has initiated an overall monitoring process that reviews all its consultant contracts on a quarterly basis.

The Contract Management and Reporting System is primarily a reporting tool to capture the information noted in the Provincial Auditor's findings. The Ministry will review the feasibility of using the system as the master system for recording all contracts and for doing periodic reviews.

Ministry of Natural Resources Response

We will implement the recommendation in concert with the Shared Services Bureau and establish a more systematic approach to collecting this information. We will enhance contract administration training. The Shared Services Bureau is currently working on enhancing a contract administration manual to be used in conjunction with the training and as a tool for ongoing reference by project managers.

Ministry of Public Safety and Security Response

The Ministry accepts this recommendation and, prior to the commencement of the audit, was nearing completion on the development of a contract-tracking database to support the management, control, and reporting of consulting contracts. Completion of the database was delayed due to the recent labour dispute in the Ontario Public Service. The Ministry also took this opportunity to make significant improvements to meet corporate information technology architecture requirements and further enhancements to the client database.

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Post-assignment Evaluations

A written performance appraisal of the consultant should be prepared after the completion of an assignment. Performance appraisals are required in the case of contracts with vendors of record. Performing the appraisal enables an assessment of: the quality of the work; whether value for money was obtained; and the suitability of the consultant for future work.

We found that the Ministries generally did not prepare formal post-assignment evaluations of consultants, and the evaluations that were prepared lacked sufficient detail to determine aspects of the consultant's performance, such as whether it was satisfactory, met all milestone dates, and was within budget. In addition, prior to awarding new contracts to companies, past performance was not verified to ensure that previous contracts had been satisfactorily carried out.

For example, in the development of the Hazardous Waste Information Network (a component of the Environet project) at the Ministry of the Environment, a consultant was hired at a price of approximately $270,000 to prepare a request for proposals. We were informed that, after an assessment of the consultant's work, the Ministry had to spend $250,000 to have the work done again. However, since the assessment was not performed on a formal basis, the Ministry had no documentation of the assessment.

Recommendation

To better ensure that value for money is received from consultants, the Ministries should ensure that all major consulting projects are formally evaluated upon completion and that the results are documented for use in determining the suitability of the consultants for future work.

Management Board Secretariat Response

Management Board Secretariat concurs that documented evaluations of consulting assignments should be completed. The instructions for using a vendor-of-record arrangement include the requirement to complete a performance evaluation for each consulting assignment. Management Board Secretariat will take the necessary steps to ensure that this is done in the future.

Ministry of the Environment Response

The Ministry acknowledges that post-assignment evaluations are a key element of good contract management. The Ministry will ensure that a standard post-assignment evaluation form is completed for all contracts.

The Ministry's new internal tracking of consulting contracts will ensure that the requirement for a post-assignment evaluation is identified, and it will be the responsibility of the technical co-ordinators to ensure that contract files are not closed until this final step is completed.

Ministry of Finance Response

We agree with the recommendation and will implement an evaluation process to assess the consultants' performance and degree to which the assignment objectives were achieved. This evaluation will be placed in the consulting file at the completion of the contract.

The Ministry will approach the Shared Services Bureau to determine the feasibility of developing a procedure whereby all consultants' performance evaluations are filed centrally and made available to the Ministry.

Ministry of Health and Long-Term Care Response

Agreed. In fact, the Ministry's guidelines in both its handbooks and on the self-help Web site suggest that a post-performance appraisal is a best practice. The Ministry will continue to emphasize this point to program managers in its procurement training.

Ministry of Natural Resources Response

We will implement the recommendation in concert with the Shared Services Bureau, including making modifications to the Performance Evaluation form.

Ministry of Public Safety and Security

As has been mentioned previously, the Ministry has developed a contract compliance process to help staff follow the requirements of the Directive on Consulting Services and to ensure appropriate documentation is maintained for all consulting engagements. A key component of this process is the completion and documentation of a post-engagement review to assess the performance of the consultant against contract deliverables.

OTHER MATTER

ONTARIO REALTY CORPORATION

In the course of our attest audit work on the Ontario Realty Corporation (ORC)—an agency of MBS—we reviewed contracts pertaining to the acquisition of creative communications consultants. The acquisition, management of, and controls over creative communications consultants fall under a different Management Board of Cabinet directive than the Management Board of Cabinet Directive on Consulting Services (see the Background section for the specific consulting services covered under the Directive) and therefore are not within the scope of this value-for-money audit. However, our work on the

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ORC revealed similar issues to the issues raised in our value-for-money audit, and for that reason we provide the following summary of our findings.

During the 2000/01 fiscal year, many consultants were engaged by ORC to deal with criticisms by members of the Legislature of past real-estate transactions. Of these consultants, the communications firms whose contracts we reviewed billed ORC a total of $1.4 million, with one firm billing over $1 million.

The largest firms reviewed were chosen through standing agreements with Management Board Secretariat's Advertising Review Board (ARB). These firms were selected based on a public-relations-company competition administered by the ARB. Firms were publicly invited to compete based on ORC's need for a public-relations agency that could provide full service to ORC.

One standing-agreement contract per company was signed. These contracts did not include a ceiling price, as the standing agreements required that ORC and the consultants enter into a "letter of agreement" for each specific project or task. The letter of agreement is intended to establish the services to be provided, the timetable, the contract price, and such other terms and conditions to which ORC and consultants agreed.

We observed that letters of agreement were frequently not completed or signed. For example, one firm's standing agreement was signed October 25, 1999. However, the first letter of agreement was not signed until September 15, 2000, by which time over $630,000 in services had been billed by the firm.

Despite the fact that this firm billed and was paid over $1 million, we found only five letters of agreement with this firm, which established maximum billings aggregating to only $210,000. Where letters of agreement were completed, we noted that the scope of the assignment was often very general in nature, defined by phrases such as "providing advice on a variety of issues impacting ORC" and "providing external and internal communications advice."

We also observed that invoices submitted by the consultants often lacked sufficient detail to determine whether the amount invoiced was reasonable.

A review of communications consultant billings revealed that consultants billed for work in all aspects of ORC's corporate communications. These included preparing annual reports and business plans, writing briefing notes, assisting in communications in connection with ORC's change in agency status, and developing Web sites. Management Board directives discourage users of consultants from becoming overly dependent on the consultants' services.

ORC management informed us that during the 2000/01 fiscal year, the organization was in the media spotlight and dealing with criticisms at Queen's Park over past real-estate transactions. ORC staff indicated that in this environment, it often had to act quickly and therefore was not always able to fully comply with formal contract procurement and management practices.

Recommendation

The Ontario Realty Corporation (ORC) should ensure that justification for hiring communications consultants is documented. A needs analysis should include the costs and benefits of hiring the consultant and alternatives considered such as the use of ORC staff. In order to reduce costs, ORC should also attempt to lessen its dependency on communications consultants by performing as much work as possible in-house.

To ensure proper contract management with communications consultants, ORC should comply with the terms of the Advertising Review Board standing agreements that require that letters of agreement be entered into for each individual assignment. ORC should also ensure that, for each agreement, the project scope and deliverables are clearly defined in sufficient scope and detail to permit the effective management of the contracts and to ensure objectives have been met.

Invoices submitted by communications consultants should provide sufficient information to allow staff responsible for invoice approvals to determine whether the service has been rendered and that the amount invoiced is reasonable.

Agency Response

ORC agrees with the recommendation. In future, corporate procurement procedures will be used for all purchases of goods and services.

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MINISTRY OF NATURAL RESOURCES

3.07–Ontario Parks Program

BACKGROUND

The Ontario Parks Program (Program) of the Ministry of Natural Resources is responsible for managing provincial parks and protected areas in support of the Ministry's vision of sustainable development of natural resources and its mission of managing such resources for ecological sustainability.

The primary objectives of the Program are to protect natural resources, provide recreational opportunities, develop tourism, and enhance appreciation of the province's natural and cultural heritage. The major responsibilities of the Program include enforcing legislation, operating park visitor services, park planning, and maintaining information systems. The Program is also responsible for administering the *Endangered Species Act*, which includes co-ordinating the development of a province-wide strategy for species at risk of extinction and the preparation of recovery plans for individual species at risk.

Public land in Ontario can be designated as a provincial park under the *Provincial Parks Act*, and the Act states that "the provincial parks shall be maintained for the benefit of future generations." Public land can also be designated as a conservation reserve under the *Public Lands Act* for the purpose of protecting natural areas and permitting traditional public land uses, but commercial activities such as timber harvesting and mining are prohibited. The Program has policy responsibility for conservation reserves, but the Ministry's Field Services Division, through local district offices, performs other activities such as site management and legislative enforcement. The number and area of Ontario's parks and reserves regulated at the time of our audit were as outlined in the following table.

Provincial Parks and Protected Areas

Designation	Number	Total Area (km^2)
Provincial parks	277	70,533
Conservation reserves	102*	2,245
Total	**379**	**72,778**

*As part of *Ontario's Living Legacy* (a comprehensive program for the protection of natural resources announced in March 1999), an additional 192 conservation reserves have been approved and receive interim protection but have not formally been established by regulation.

Source of data: Ministry of Natural Resources

Depending on the intended use, provincial parks can be deemed as either operating parks—whereby services and facilities are made available to the general public—or non-operating parks—which are specific areas designated as park land but not developed for recreational use. Many non-operating parks are established for educational and scientific purposes.

The parks provide over 19,000 car-accessible campsites and 7,000 wilderness campsites, as well as day-use areas, picnic facilities, and a number of visitor centres and heritage museums. The Ministry estimates that annually the provincial park system creates 14,000 person-years of employment and contributes $390 million to the Ontario economy.

In February 1996, the government approved a new business model for the protection and management of the provincial park system. The Minister of Natural Resources was given the administrative authority to set provincial park fees, establish a board to provide advice on the management of provincial parks, and deposit all provincial park revenue into a Special Purpose Account dedicated to Ontario Parks' expenditures.

For the 2001/02 fiscal year, the Ministry's funding for the Program was approximately $55 million, of which $41 million was funded from the Special Purpose Account. Ministry capital spending on the Ontario Parks infrastructure totalled an additional $15.6 million.

AUDIT OBJECTIVES AND SCOPE

The objectives of our audit of the Ontario Parks Program were to assess whether the Ministry had adequate procedures in place to:

- ensure compliance with the legislation and ministry policies that are designed to ensure that park resources are sustained to benefit future generations;

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- ensure compliance with the legislation and ministry policies that are designed to ensure that park resources are sustained to benefit future generations;

- measure and report on the Program's effectiveness in managing the public use and ecological sustainability of provincial parks; and
- ensure that resources were managed with due regard for economy and efficiency.

The criteria used to conclude on our audit objectives were discussed with and agreed to by ministry management and related to systems, policies, and procedures that the Ministry should have in place.

Our audit was performed in accordance with the standards for assurance engagements, encompassing value for money and compliance, established by the Canadian Institute of Chartered Accountants, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

Our audit included a review of the activities of the Ministry's Internal Audit Services Branch. However, we did not reduce the extent of our audit work, as the Branch had not issued any recent reports on the administration of the Ontario Parks Program. The Branch did carry out an audit of Ontario Parks' Special Purpose Account, which we reviewed. We incorporated any relevant concerns arising from that review into our audit procedures.

OVERALL AUDIT CONCLUSIONS

Overall, we concluded that, in many respects, the Ministry did not ensure compliance with the legislation and policies designed to ensure the sustainable use and development of park resources. Furthermore, the Ministry did not have adequate procedures in place to measure and report on the effectiveness of the Ontario Parks Program in maintaining the parks system for the benefit of future generations. Specifically, we noted the following:

- The Ministry had management plans in place for only 117 of the 277 provincial parks. Such plans are essential if animal and plant life resources are to be managed and protected. We noted instances where inadequate planning and a lack of action resulted in uncontrolled wildlife growth and habitat destruction that threatened the sustainability of other species. In addition, in over half of the non-operating parks we reviewed, the Ministry had not prepared the required inventories of animal life, plant life, geology, and other natural features. This information is a critical first step in ensuring fragile park resources are properly managed.
- The Ministry did not have an overall strategy in place to manage species at risk of extinction in the province even though the *Endangered Species Act* has been in force since 1971. Of the 29 species deemed by regulation to be at risk, only five had recovery plans in place. Two species of butterfly and a species of rattlesnake, all of which did not have a recovery plan in place, can no longer be found in Ontario. In addition, there were 35 species that were not protected by regulation under the Act, even though some of these species had been designated as endangered as long ago as 1984.

- Although the Ministry had identified a set of outcomes related to its objectives, it had not defined performance measures to assess the overall effectiveness of the Program. The measures it did have in place did not specifically relate to an evaluation of the ecological sustainability of provincial park resources.

In addition, we noted a number of instances where procedures to ensure due regard for economy and efficiency needed to be improved. For instance:

- Customer service standards were not met for the Computer Reservation and Registration Accounting System (operated by a private service provider), in that over 65% of our sample telephone calls were not answered either because of a busy signal or because we were put on hold for 15 minutes (after which time we hung up the telephone).
- According to the Ministry, the majority of the existing capital infrastructure, including buildings, roads, bridges, docks, and water distribution systems, is between 20 and 45 years old and is approaching the end of its useful life or is beyond its useful life. The Ministry had a backlog of capital infrastructure projects to complete, resulting in the deterioration of Ontario Parks' infrastructure.

DETAILED AUDIT OBSERVATIONS

COMPLIANCE WITH POLICIES AND PROCEDURES

Managing Parks for Ecological Sustainability

Ministry policy requires that park management plans be prepared for each provincial park and reviewed and updated every 10 years. These plans provide strategic direction for the management of the resources within individual provincial parks to achieve park objectives related to protection, heritage appreciation, recreation, and tourism. Central to the management plan process is the requirement that detailed inventories be completed of the park's cultural heritage, wildlife, recreational resources, geology, and other natural features. We reviewed the Ministry's park management plans and monitoring process and had the following concerns:

- Of the 277 provincial parks that existed at the time of our audit, only 117 had management plans in place. Furthermore, 68 of the plans that were in place had not been reviewed for more than 10 years, with the average age of these plans being 15 years. Without a current management plan in place, there is no overall strategy to manage park resources to ensure that the environment is protected and that park resources are optimally used. In that regard, we noted that another Canadian jurisdiction is required to review park management plans every five years because ecosystems are vulnerable to outside influences and can rapidly change or deteriorate. For example, we noted that it took over 20 years to prepare a management plan for one eastern Ontario park. The lack of strategic direction for resource management during that time resulted in uncontrolled wildlife population increases that caused severe damage to vegetation in the park and the destruction of habitats that sustain rare species.

- In parks where management plans existed, we noted that the Ministry did not ensure that the plans to address resource issues within the park were implemented in an effective and timely manner. For example, at one southwestern Ontario park the Ministry did not act on problems associated with the destruction of vegetation by wildlife, thus threatening the sustainability of other species in the park. Specifically, the park can sustain a population of 65 to 75 deer, but it currently has over 130 deer. Scientific research carried out by a university determined that this has resulted in a permanently altered ecological state in that park. The research noted that an endangered bird species was disappearing since its preferred nesting sites were not regenerating within the park because of habitat destruction. The Ministry has determined that loss and degradation of habitat is the single biggest cause of wildlife species extinction.
- The Ministry did not maintain a provincial inventory of protected resources, did not know how many inventories were still to be completed, and did not know when existing inventories had been prepared. We also noted that 57% of our sample of non-operating parks did not have a detailed inventory of plants, animal life, geology, and other natural features. Complete inventory information is the cornerstone of preparing an effective management plan and successfully managing the resources within provincial parks. The lack of such information reduces the Ministry's ability to ensure the sustainable use of park resources, and management practices, in the absence of this information, may result in the degradation of ecologically sensitive areas.

  In addition to preparing inventories to help monitor the health of an ecosystem, many jurisdictions identify an indicator species within protected areas. Focusing on an indicator species and its habitat facilitates the monitoring of ecological conditions and the determination of any corrective action that may be required. At the time of our audit, the Ministry was in the process of identifying indicator species.
- The Ministry uses implementation plans to provide direction for more specific projects and activities to manage and protect park resources and to identify the financial, material, and human resources needed for the preparation of annual work plans. However, the Ministry did not track the overall progress of the implementation plans that have been developed. Overall monitoring of implementation plans would help determine how well the Program is achieving the planned objectives. It would also enable the Ministry to provide a consistent basis for determining the allocation of resources to specific projects and activities. The Ministry advised us that human and

financial resources are scarce and must be allocated among competing priorities. As a result, carrying out implementation plans is becoming more difficult, and the Ministry risks not adequately protecting park resources.

Recommendation

To help ensure that provincial park resources are protected and maintained at sustainable levels, the Ministry should:

- **complete management plans for all parks and review existing plans on a more timely basis;**
- **complete and monitor the required resource inventories for all parks;**
- **develop procedures, such as the selection and monitoring of indicator species, to help evaluate and report on the sustainability of park ecosystems; and**
- **conduct a province-wide risk analysis that will result in financial and human resources being directed to the most critical areas and ensure that the related implementations are effectively monitored.**

Ministry Response

The Ministry accepts the validity of the concerns expressed regarding the need to develop management plans, inventories, sustainability indicators, and a province-wide risk analysis and is fully committed to undertake these on a priority basis.

Management plans and measurement tools are important, but are not necessarily the only means to secure ecological integrity. The designation of land as a park or conservation reserve ensures that the activities that pose the greatest threat to natural ecosystems, including settlement and industrial uses, are prohibited or take place under tightly controlled conditions. A range of legislation, regulations, and policies are used to ensure that parks are protected.

The management planning process entails a multi-stage public consultation process. The Provincial Auditor's report notes the case of the southwestern park experiencing an over-population of deer. The ongoing challenge to the Ministry is to balance the objectives of resource protection with the sometimes conflicting public sentiments and values. In this particular case, a successful deer herd reduction plan has been implemented that is consistent with the principles of ecological sustainability and has the support of the local Aboriginal community and other stakeholder groups.

The Ministry accepts the Provincial Auditor's findings with respect to the required resource inventories. The Ministry will assess the status of its existing resource inventories and set priorities for completing inventories with available staff and financial resources.

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The Ministry accepts the validity of the concerns expressed regarding the need to develop management plans, inventories, sustainability indicators, and a province-wide risk analysis and is fully committed to undertake these on a priority basis.

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The management planning process entails a multi-stage public consultation process. The Provincial Auditor's report notes the case of the southwestern park experiencing an over-population of deer. The ongoing challenge to the Ministry is to balance the objectives of resource protection with the sometimes conflicting public sentiments and values. In this particular case, a successful deer herd reduction plan has been implemented that is consistent with the principles of ecological sustainability and has the support of the local Aboriginal community and other stakeholder groups.

The Ministry accepts the Provincial Auditor's findings with respect to the required resource inventories. The Ministry will assess the status of its existing resource inventories and set priorities for completing inventories with available staff and financial resources.

In respect of evaluating and reporting on the sustainability of park ecosystems, the Ministry accepts the Provincial Auditor's findings and is currently developing a framework to define indicators. This framework will address various components of the environment including land, water, and species as potential indicators of sustainability.

The Ministry agrees with the findings of the Provincial Auditor with respect to implementation plans. As is the case with management plans, the Ministry will ensure that available financial and human resources are directed to the most critical areas.

Species at Risk of Extinction in Ontario

The province enacted the *Endangered Species Act* in 1971 to provide for the conservation, protection, restoration, and propagation of species of flora and fauna of the province of Ontario that are threatened with extinction. In 1999, Ontario's Living Legacy program, which was established to provide a long-term program of natural-heritage protection in the province, inaugurated the Species at Risk Project. Although the project is responsible for species at risk throughout the province—not just in parks—it is administered through the Ontario Parks Program. The project provides advice on the development of regulations, policies and guidelines, recovery plans, partnership agreements, and field projects across Ontario. The goal of the project is to maintain, enhance, or restore the ecological sustainability of ecosystems to achieve the conservation, protection, or recovery of species at risk, and the existence of healthy populations of all native species that make up and contribute to the biological diversity of these ecosystems. For the 2001/02 fiscal year, the project received base funding of $187,000 from the Fish and Wildlife Program and $2.2 million from the Ontario's Living Legacy initiative.

The Ministry's Committee on the Status of Species at Risk in Ontario (COSSARO) conducts reviews of available data on those Ontario species that are to be considered for evaluation by the federal Committee on the Status of Endangered Wildlife in Canada (COSEWIC). In 1996, in conjunction with its federal and provincial counterparts, the Ministry signed the Accord for the Protection of Species at Risk and committed to a national approach for the protection of such species. In signing the agreement, the Ministry recognized COSEWIC as the source of independent advice on the status of species at risk. Approximately 47% of all nationally designated species at risk are in Ontario, and 80% of these species are native to southwestern Ontario.

We reviewed the Ministry's efforts to protect and restore species at risk and had the following concerns:

- The Ministry did not have an overall strategy for species at risk even though the *Endangered Species Act* has been in force since 1971. Such a strategy would set out the principles, goals, and general policies that would enable the Ministry to develop a structured program for species at risk. At the completion of our audit in January 2002, we were informed that the Ministry was in the process of developing such a strategy.

- As of January 2002, the Ministry did not have recovery plans in place for most of the 29 species protected under the *Endangered Species Act*. Some of these species were designated as endangered by regulation under the Act as long ago as 1973. The following table specifies the recovery plan status of the 29 species.

Recovery Plan Status for Endangered Species

Recovery Plan Status	Number of Species	Comments
Completed	5	
Draft stage	10	7 were designated prior to 1995
Not started	14	7 were designated prior to 1978

Source of data: Ministry of Natural Resources

Without recovery plans, it is difficult for the Ministry to effectively manage species at risk to ensure both the continued existence of such species within the province and their future sustainability. For example, COSEWIC has determined that three species that were designated as endangered by regulation under the *Endangered Species Act* can no longer be found in the province. They are the Timber Rattlesnake, regulated in 1973, and two butterfly species regulated in 1990—the Frosted Elfin and Karner Blue butterflies. Two of these species never had a recovery plan in place, and the recovery plan for the remaining species was only in the draft stage.

- Both COSSARO and COSEWIC had determined that, in addition to the 29 species already identified, another 31 species in Ontario were endangered, and these species were recorded on a backlog list, yet to be regulated. Some of these species were designated as endangered as long ago as 1984. Delays in addressing the needs of these endangered species may result in their extinction in the province.

Recommendation

To properly manage species at risk and to help sustain and increase endangered populations, the Ministry should:

- **develop an overall strategy to provide for the conservation, protection, restoration, and propagation of species at risk;**
- **clear up the backlog for regulating identified endangered species; and**
- **prepare and implement recovery plans to help prevent species from becoming extinct in the province.**

In respect of evaluating and reporting on the sustainability of park ecosystems, the Ministry accepts the Provincial Auditor's findings and is currently developing a framework to define indicators. This framework will address various components of the environment including land, water, and species as potential indicators of sustainability.

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- **clear up the backlog for regulating identified endangered species; and**
- **prepare and implement recovery plans to help prevent species from becoming extinct in the province.**

VFM Section 3.07

Ministry Response

The Ministry agrees with the Provincial Auditor's findings with respect to the need for an overall strategy for species at risk. The Ministry completed a Draft Strategy for Species at Risk in Ontario *and circulated it for internal review within the Ministry in February 2002. Pursuant to internal approval the document will become available for external review.*

The Ministry accepts the recommendation of the Provincial Auditor with respect to clearing up the backlog for regulating identified endangered species. It is important to recognize that the provincial Endangered Species Act *is not the only mechanism available to provide protection. Legal and/or policy-level protection is also provided to species and habitats under other provincial and federal statutes, including: the* Fish and Wildlife Conservation Act, *the* Provincial Parks Act, *the* Crown Forest Sustainability Act, *the* Planning Act, *the federal* Fisheries Act, *and the federal* Migratory Birds Convention Act.

Additional funding made available under Ontario's Living Legacy has enabled the Ministry to partially address the backlog on a priority basis.

The Ministry agrees with the Provincial Auditor's finding that recovery plans should be developed and action plans implemented to help prevent species from becoming extinct in the province. In keeping with the 1996 Accord for the Protection of Species at Risk in Canada, the Ministry will develop recovery plans for Ontario's endangered and threatened species and is implementing a broad range of activities to manage species at risk, including stewardship, research, monitoring, habitat restoration, and awareness.

Ontario is home for more species at risk than any other jurisdiction in Canada. Given the workload associated with providing for the protection, conservation, and recovery of these species, Ontario has initiated the development of a proposed evaluation process, "Assessment of Conservation Priorities", which will be used in determining where to allocate resources in a manner that addresses the most urgent conservation needs.

Ontario will be the lead for developing recovery strategies for endangered and threatened species (for which Ontario has jurisdictional responsibility) that occur solely in Ontario and will co-lead the development of recovery strategies where a species occurs in Ontario as well as in other provinces or territories.

Recovery strategies will be developed for individual species where the habitat requirements and the specific limiting factors warrant a single species plan and on an ecosystem basis in which the focus will be on recovering the habitat of multiple species that may be endangered, threatened, or at other levels of risk.

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The Ministry agrees with the Provincial Auditor's findings with respect to the need for an overall strategy for species at risk. The Ministry completed a **Draft Strategy for Species at Risk in Ontario** ***and circulated it for internal review within the Ministry in February 2002. Pursuant to internal approval the document will become available for external review.***

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Enforcement Activity

The *Provincial Parks Act* stipulates that no person shall remove, damage, or deface any property of the Crown or damage or deface any relic, artifact, or natural object or any site of archaeological or historical interest within a provincial park. In addition, to ensure that the Ontario Parks Program can continue to contribute to the enjoyment of present and future park visitors and to protect park ecosystems, the Act regulates human activities within the park such as mining, fishing, camping, and recreational pursuits. The Ministry employs approximately 250 park wardens to enforce the legislation by conducting general deterrent patrols to protect park property and natural resources. An additional 150 ministry staff, including all park superintendents and assistant superintendents, have the power and authority of a park warden. Park superintendents are responsible for ensuring that the level of enforcement activity carried out by park wardens is adequate. Within park boundaries, park superintendents and wardens have all the power and authority of members of the Ontario Provincial Police.

We visited a number of provincial parks and reviewed the overall enforcement activities. We also reviewed the enforcement monitoring reports maintained at these parks and, from either interviews or surveys, we received responses from over 90% of the 59 provincial park superintendents. Based on this work, we concluded that park resources were not adequately protected and that enforcement efforts needed to be improved.

Overall, three-quarters of the park superintendents who responded stated that the parks that they are responsible for had not been adequately maintained to ensure that natural resources were protected. Specifically, with respect to operating parks, almost 70% of the park superintendents indicated that the parks were not being effectively patrolled and that the Ministry's minimum operating standards relating to enforcement were not being met due to inadequate funding, insufficient staff, and substandard equipment. As a result, park wardens noted that they were not able to adequately carry out enforcement activities. There were also a number of customer complaints regarding the lack of enforcement staff in operating parks. For example, park campers expressed concern about their safety in the evening hours and expected major campsites to be patrolled by park wardens.

Enforcement activity was also inadequate in non-operating parks. Most park superintendents noted that insufficiency of resources was the reason for this inadequate level of enforcement activity. Over half the superintendents stated that staff visit non-operating parks once a year, not at all, or only when specific concerns are brought to their attention. We were informed that enforcement resources are allocated according to immediate priorities, which mainly involve the patrolling of operating parks. Most enforcement activity in non-operating parks is reactive and results from information received from volunteers, native groups, local police, park visitors, and other concerned citizens.

Park superintendents also informed us that, because enforcement activity was inadequate in non-operating parks, they were not fully meeting their protection responsibilities. The Ministry's enforcement policies deal primarily with activities in operating parks, with no specific guidelines outlining park wardens' responsibilities in non-operating parks. Superintendents noted examples of illegal camping, hunting, cutting down of trees for firewood, use of recreational vehicles in parks, vandalism, and boundary encroachment by adjacent landowners. Some of these violations may be eliminated or reduced with periodic, risk-based patrolling, formalized in the Ministry's minimum operating standards.

Park superintendents noted that, as a result of the lack of enforcement, resources had been adversely affected and in some cases destroyed. However, they indicated that the extent of damage or effect on wildlife habitats cannot be determined, both because an inventory of what species or resources exist in the park is not available and because no statistics are maintained on the known damage to park resources. Therefore, there is a significant risk that the Ministry may not be maintaining provincial parks for the benefit of future generations as required by the *Provincial Parks Act*.

Recommendation

To help ensure that provincial park resources are adequately protected, the Ministry should:

- **review the level of enforcement activity in both operating and non-operating parks to determine whether there are adequate levels of funding, staff, and equipment for park superintendents and wardens to carry out their enforcement responsibilities; and**
- **develop specific guidelines outlining a risk-based enforcement strategy for non-operating parks.**

Ministry Response

The Ministry will undertake a review of the current park enforcement operating standard contained in the minimum park operating standards manual for operating parks.

Since 1983 more than 150 new provincial parks (3.9 million hectares) have been added to the system. This significant expansion of the system has placed additional demands on enforcement activity in both operating and non-operating parks. Since 1996, the Ministry has increased its efforts in the area of park enforcement patrols. In 1996 there were 14,759 person-days of effort in enforcement, while in 2001 there were 18,987 person-days, representing a 28% increase.

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MEASURING AND REPORTING ON PROGRAM EFFECTIVENESS

Measures of Ecological Sustainability

In 1991, the Ministry produced a policy document termed *Directions '90s*. That document indicated that the basis of future policy development would be the sustainable development of natural resources. Sustainable development is development that meets the economic, social, and environmental needs of the present generation without compromising the needs of future generations. Accordingly, throughout the 1990s, the Ministry attempted to develop desired outcomes to measure its success in achieving the sustainable development of natural resources. In 2000, the Ministry updated its policy with a document termed *Beyond 2000: Ministry of Natural Resources' Strategic Directions*. This document formally adopts the Ministry's objective of ecological sustainability and sets out the strategies that will help to achieve this outcome.

Ontario Parks' 2000/01 Business Plan noted that the Program's objective was to "protect and manage provincially significant natural, cultural and recreational environments in a system of provincial parks and provide a variety of outdoor recreational activities." The Business Plan detailed a set of desired outcomes but did not define performance measures to assess the overall effectiveness of the Program in meeting its objective of ecological sustainability.

Currently, the Program only collects information and reports on two performance measures. The first measure is the economic and social benefits of provincial parks expressed in terms of the number of park visitors. The second measure relates to the protection of the natural resource base with respect to endangered species in terms of the number of species regulated and number of recovery plans prepared and completed. These measures relate to activities involved in operating provincial parks and do not indicate whether natural resources are being sustained. The Ministry has not developed effectiveness measures to specifically address the desired outcomes identified in the Business Plan and determine whether the Program is fulfilling the Ministry's objective of ecological sustainability.

Without an overall assessment of program effectiveness, such as the number of management plans prepared and implemented, the Ministry cannot determine whether its policies and management practices are successful in achieving its objective of ecological sustainability of provincial park resources. Ministry staff agreed that such an overall assessment was needed. However, information available was insufficient to measure the achievement of the Program's objective.

In this regard, in May 2001 the Ministry completed an ecological framework report entitled *An Approach for Monitoring in Ontario's Provincial Parks and Protected Areas*. The purpose of this framework is "to assist Ontario Parks branch in the development of an approach to inventory, monitor, assess and report on long-term ecological health and integrity, and the cumulative effect of human activities in Ontario's provincial parks and conservation reserves." Through this process, the Ministry hopes to identify indicator species to be monitored to determine the state of natural resources and ultimately whether there is ecological sustainability. The species and ecological changes are to be monitored and measured so that timely and effective action can subsequently be taken and ecological sustainability can be assessed.

As a first step, in January 2002 the Ministry undertook a four-year assessment of its protected areas. The Ministry plans to assess pressures on the environment such as human recreational use, toxins and pollutants, habitat modifiers, climate changes, and variations in flora and fauna. The Ministry will use the results of the assessment as part of its monitoring of the ecological health and integrity of provincial park resources.

Recommendation

The Ministry should develop performance measures for use in assessments that help to ensure the ecological sustainability of provincial park resources.

Ministry Response

The Ministry accepts the Provincial Auditor's findings. With available resources, currently provided through short-term Ontario's Living Legacy funding, the Ministry is taking several steps to address this concern including:

- ***developing a Parks and Protected Areas Ecological Monitoring Program; and***
- ***completing year one of a four-year assessment of natural and human-induced stresses affecting Ontario's provincial parks that, upon completion, will help the Ministry to assess the nature and degree of threats to the system and to set priorities on what indicators should be monitored and on how they should be monitored.***

DUE REGARD FOR ECONOMY AND EFFICIENCY

Park Reservation and Accounting System

In 1999, the Ministry entered into a five-year agreement with a private contractor to operate the Computer Reservation and Registration Accounting System, which is used by the public to make reservations for provincial park camping sites. The service provider operates a call centre and an Internet site for taking reservations. The contractor also provides the necessary personnel, as well as computer software and equipment. For the 2000/01 fiscal year, the Ministry paid the provider approximately $2 million to operate the reservation system.

We reviewed the selection of the service provider and concluded that the vendor was competitively acquired in accordance with government policy. We also reviewed the performance of the service provider and the Ministry's monitoring of security measures and procedures and had the following concerns:

- The service provider has not met the customer service standard detailed in the agreement, whereby 80% of the telephone calls are to be answered within 20 seconds. The service provider is responsible for ensuring that adequate staffing levels are maintained to meet this standard. From February 2000 to September 2001, the Ministry determined that the standard was often not met and levied a penalty of $129,000 for the time periods when the service provider had not met the customer service standard. We conducted our own test and found that 65% of our calls were not answered either because of a busy signal or because we were put on hold for 15 minutes (after which time we hung up the telephone). At the completion of our audit in January 2002, the service provider had not paid the penalty and, under the terms of the agreement, had asked for arbitration by a third party.
- In February 2000, prior to implementation, the Ministry hired a consultant to test the system for security, and any problems noted were subsequently corrected. However, since February 2000 the Ministry has not carried out any other security tests of the system to verify that the security features to protect information being transmitted over the Internet were operating effectively. Management Board of Cabinet directives require that contracts with service providers include a provision for periodic independent security reviews of information technology facilities. The Ministry's agreement with the contractor did not include such a provision.

Recommendation

The Ministry should more closely monitor its service provider to ensure that customer service requirements are being met and ensure that future contracts with service providers include a provision for periodic independent security reviews.

Ministry Response

The Ministry monitors the performance of the reservation call centre on the basis of daily and weekly reports. The Ministry also monitors the quality of customer service through customer comments and complaints. On balance, the level of customer satisfaction is high, and the Ministry receives very few complaints regarding long hold times or busy signals. Nevertheless, the Ministry will undertake to enhance service-provider monitoring by dedicating resources to conduct random testing and sampling of response times.

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Accounting System went on-line in March of 2000. The Ministry has now established a semi-annual security check of the Internet reservation system. The security checks are to be conducted by an independent consulting firm.

Capital Infrastructure Maintenance

The Ministry estimates that the value of the provincial park capital infrastructure, excluding land, is approximately $800 million. This infrastructure includes buildings, visitor centres, water distribution systems, sewage treatment facilities, roads, bridges, docks, and equipment. Since 1996, when Ontario Parks was created as a new business model, capital expenditures have been as outlined in the following table:

Ontario Parks
Capital Expenditures,
1996/97–2001/02

Fiscal Year	Capital Expenditure ($)
1996/97	9,579,000
1997/98	9,801,000
1998/99	12,203,000
1999/2000	13,781,000
2000/01	19,303,000
2001/02	15,569,000

Source of data: Public Accounts of Ontario

According to the Ministry, the majority of the existing capital infrastructure within the parks is between 20 and 45 years old and is approaching the end of or is beyond its useful life. Our review of the capital process indicated that the Ministry had a backlog of infrastructure projects and insufficient funding allocated to complete them. This results in the continued deterioration of the infrastructure facilities. Details of our concerns follow.

Over 80% of the park superintendents responding to our survey indicated that funding for infrastructure maintenance was inadequate and did not fulfill the needs of the parks. They rated over two-thirds of the infrastructure facilities as marginal or unsatisfactory with required improvements outstanding for more than two years. The majority of these parks required improvements relating to washroom facilities, roads, playgrounds, water systems, and administrative buildings. In addition, customer comment cards indicated that satisfaction with park facilities decreased from 54% in 1997 to 45% in 2001.

The Ministry estimates that the annual costs to maintain and rehabilitate its existing park infrastructure should be approximately $16 million. While annual capital funding that the

Program receives approximates this amount, part of the capital funding is designated for non-maintenance expenditures such as land acquisitions and new initiatives. For the 2001/02 fiscal year, the Ministry estimated that an additional $8.5 million in capital funding was needed to adequately maintain the parks' infrastructure. Consequently, deferring annual maintenance may result in accelerated structural deterioration that would eventually require more costly replacement. The Ministry estimated that the funding required to bring the capital infrastructure to an acceptable state was $420 million.

Over 75% of the superintendents indicated that outstanding infrastructure deficiencies posed a possible threat to health and safety. For example, some staff housing did not meet the fire code, had structural problems, or contained mold that could cause health problems.

In addition, by regulation under the *Ontario Water Resources Act*, park water treatment and distribution systems are required to meet provincial standards by December 31, 2002. Although the Ministry implemented a water improvement program in September 2000 to address water system deficiencies in provincial parks and comply with the requirements of the *Ontario Water Resources Act*, there is a risk that the Ministry will not meet the December 31, 2002 deadline (subsequent to our audit, this deadline was extended to July 1, 2003). The Ministry had identified 58 projects that needed to be completed to comply with the requirements. However, as of January 31, 2002, most of the designs for rehabilitation were still in progress, with only one project having been approved by the Ministry of the Environment. In addition to the risk of missing the deadline, there is a risk that the Ministry will operate provincial parks for the 2003 season with water treatment and distribution systems that do not meet provincial standards.

Recommendation

To ensure that provincial parks are maintained for the benefit of future generations and to correct infrastructure deficiencies that may pose a threat to health and safety, the Ministry should take action to bring the parks' infrastructure to a satisfactory state.

Ministry Response

The health and safety of park staff and visitors are of paramount importance to the Ministry. The Ministry has taken steps to ensure that any infrastructure deficiencies that may pose a threat to the health and safety of staff and visitors will be corrected. The Ministry will continue its ongoing efforts to restore the parks' infrastructure with available resources.

With the introduction of new drinking water standards, the Ministry has undertaken a major initiative to upgrade drinking water systems in provincial parks. The provision of drinking water in provincial parks meets current Ministry of Environment standards. The filtration requirements under the new regulatory standards of the **Ontario Water Resources Act** ***will come into effect on December 31, 2002. The Ministry will ensure that the provision of drinking***

Accounting System went on-line in March of 2000. The Ministry has now established a semi-annual security check of the Internet reservation system. The security checks are to be conducted by an independent consulting firm.

Capital Infrastructure Maintenance

The Ministry estimates that the value of the provincial park capital infrastructure, excluding land, is approximately $800 million. This infrastructure includes buildings, visitor centres, water distribution systems, sewage treatment facilities, roads, bridges, docks, and equipment. Since 1996, when Ontario Parks was created as a new business model, capital expenditures have been as outlined in the following table:

Ontario Parks
Capital Expenditures,
1996/97–2001/02

Fiscal Year	Capital Expenditure ($)
1996/97	9,579,000
1997/98	9,801,000
1998/99	12,203,000
1999/2000	13,781,000
2000/01	19,303,000
2001/02	15,569,000

Source of data: Public Accounts of Ontario

According to the Ministry, the majority of the existing capital infrastructure within the parks is between 20 and 45 years old and is approaching the end of or is beyond its useful life. Our review of the capital process indicated that the Ministry had a backlog of infrastructure projects and insufficient funding allocated to complete them. This results in the continued deterioration of the infrastructure facilities. Details of our concerns follow.

Over 80% of the park superintendents responding to our survey indicated that funding for infrastructure maintenance was inadequate and did not fulfill the needs of the parks. They rated over two-thirds of the infrastructure facilities as marginal or unsatisfactory with required improvements outstanding for more than two years. The majority of these parks required improvements relating to washroom facilities, roads, playgrounds, water systems, and administrative buildings. In addition, customer comment cards indicated that satisfaction with park facilities decreased from 54% in 1997 to 45% in 2001.

The Ministry estimates that the annual costs to maintain and rehabilitate its existing park infrastructure should be approximately $16 million. While annual capital funding that the

Program receives approximates this amount, part of the capital funding is designated for non-maintenance expenditures such as land acquisitions and new initiatives. For the 2001/02 fiscal year, the Ministry estimated that an additional $8.5 million in capital funding was needed to adequately maintain the parks' infrastructure. Consequently, deferring annual maintenance may result in accelerated structural deterioration that would eventually require more costly replacement. The Ministry estimated that the funding required to bring the capital infrastructure to an acceptable state was $420 million.

Over 75% of the superintendents indicated that outstanding infrastructure deficiencies posed a possible threat to health and safety. For example, some staff housing did not meet the fire code, had structural problems, or contained mold that could cause health problems.

In addition, by regulation under the *Ontario Water Resources Act*, park water treatment and distribution systems are required to meet provincial standards by December 31, 2002. Although the Ministry implemented a water improvement program in September 2000 to address water system deficiencies in provincial parks and comply with the requirements of the *Ontario Water Resources Act*, there is a risk that the Ministry will not meet the December 31, 2002 deadline (subsequent to our audit, this deadline was extended to July 1, 2003). The Ministry had identified 58 projects that needed to be completed to comply with the requirements. However, as of January 31, 2002, most of the designs for rehabilitation were still in progress, with only one project having been approved by the Ministry of the Environment. In addition to the risk of missing the deadline, there is a risk that the Ministry will operate provincial parks for the 2003 season with water treatment and distribution systems that do not meet provincial standards.

Recommendation

To ensure that provincial parks are maintained for the benefit of future generations and to correct infrastructure deficiencies that may pose a threat to health and safety, the Ministry should take action to bring the parks' infrastructure to a satisfactory state.

Ministry Response

The health and safety of park staff and visitors are of paramount importance to the Ministry. The Ministry has taken steps to ensure that any infrastructure deficiencies that may pose a threat to the health and safety of staff and visitors will be corrected. The Ministry will continue its ongoing efforts to restore the parks' infrastructure with available resources.

With the introduction of new drinking water standards, the Ministry has undertaken a major initiative to upgrade drinking water systems in provincial parks. The provision of drinking water in provincial parks meets current Ministry of Environment standards. The filtration requirements under the new regulatory standards of the **Ontario Water Resources Act** ***will come into effect on December 31, 2002. The Ministry will ensure that the provision of drinking***

water in provincial parks for the 2003 season will meet the new provincial standards. To date, the Ministry has implemented the operational requirements of the new drinking water standards that came into effect in August 2000.

Provincial Park Movable Assets

We reviewed the Ministry's management of provincial park movable assets such as furniture, tools, equipment, computers, and machinery. We concluded that the controls in place to properly account for and safeguard these assets were inadequate. Proper controls are essential as movable assets are susceptible to loss or theft. The Ministry had used an asset management system to record and track movable assets, but the system has not been operational since 1998, when incompatible technology was implemented. The Ministry did not replace the asset management system.

Ministry policy requires that park superintendents maintain an up-to-date inventory list of the movable assets in their parks that is to be submitted to head office at least annually. However, many of the parks we visited had not maintained an inventory list since 1998 when the asset management system was discontinued. The purchases from April 1, 1998 to December 31, 2001 of assets that should have been controlled and included on the asset list totalled $4.2 million. In addition, we found that the asset control function at these parks was a low priority for superintendents. Over two-thirds of the superintendents responding to our survey indicated that their asset inventory was not current and most dated back to 1998. The Ministry also did not ensure that superintendents performed a periodic physical verification of assets. Without a complete listing of movable assets, the Ministry was not in a position to effectively monitor park assets.

In January 2002, the Ministry released a new policy and guideline for movable assets detailing the mandatory minimum requirements for the effective management of movable assets. All assets are to be recorded and tracked using a new asset management system.

Recommendation

To properly control and safeguard provincial park movable assets, the Ministry should develop and implement a new asset management system to permit the effective implementation of the new movable asset management policy and guideline.

Ministry Response

The Ministry agrees with the recommendation of the Provincial Auditor. The Ministry has implemented a new asset management system for the program areas that were using the older Asset Management Inventory system. In addition, park superintendents are required to conduct periodic verification of assets as per ministry policy and procedure.

Ontario Parks Special Purpose Account

Effective April 1, 1996 the Ministry established the Ontario Parks Special Purpose Account in the province's Consolidated Revenue Fund. All revenues received under the *Provincial Parks Act* are to be deposited into this account and used, as directed by the Minister of Natural Resources, to make payments related to the care, preservation, improvement, control, and management of provincial parks. Park revenue is derived from user fees, equipment rentals, concession sales, and fines. During the 2000/01 fiscal year, revenue totalling $37 million was deposited to the credit of the Special Purpose Account.

In order to properly account for all provincial revenue, the *Financial Administration Act* requires that all public money be deposited to the credit of the Minister of Finance and reflected in the Consolidated Revenue Fund. For some provincial parks, the Ministry has entered into agreements with third-party contractors to either operate the entire park or operate access points into the park. The Ministry has allowed contractors to retain all or a portion of the fees collected as park revenues and expenditures are understated in the Public Accounts of Ontario by the amount of revenue retained by contractors.

We also reviewed revenue collection for ministry-operated parks. Daily revenue collection summaries are to be submitted at least weekly to the Ministry for reconciliation with deposits into the Consolidated Revenue Fund. Once the reconciliation is complete, the Ministry of Finance is to transfer the funds to the Ontario Parks Special Purpose Account. However, there have been significant delays in the Ministry's reconciliation process that have prevented the timely transfer of revenue from the Consolidated Revenue Fund to the Special Purpose Account. Consequently, we estimate that the Ontario Parks Program has lost interest revenue that amounted to approximately $250,000 for the period from August 1999 to October 2001.

Recommendation

To ensure that all public money is properly accounted for and the Ontario Parks Special Purpose Account earns all the interest it is entitled to, the Ministry should:

- **require that contractors deposit all provincial park revenue into the Consolidated Revenue Fund as stipulated by the *Provincial Parks Act* and the *Financial Administration Act*; and**
- **perform the necessary reconciliations on a timely basis.**

Ministry Response

The Ministry will undertake a review of the practice of allowing third-party contractors to retain all or a portion of the fees collected as reimbursement for their services to ensure compliance with applicable legislation. The Ministry is also taking steps to ensure that reconciliations are completed in a more timely manner. For the 2002 operating season, the Ministry has directed additional resources to revenue reconciliation.

water in provincial parks for the 2003 season will meet the new provincial standards. To date, the Ministry has implemented the operational requirements of the new drinking water standards that came into effect in August 2000.

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Recommendation

To ensure that all public money is properly accounted for and the Ontario Parks Special Purpose Account earns all the interest it is entitled to, the Ministry should:

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- **perform the necessary reconciliations on a timely basis.**

Ministry Response

The Ministry will undertake a review of the practice of allowing third-party contractors to retain all or a portion of the fees collected as reimbursement for their services to ensure compliance with applicable legislation. The Ministry is also taking steps to ensure that reconciliations are completed in a more timely manner. For the 2002 operating season, the Ministry has directed additional resources to revenue reconciliation.

3.08–Community Services Program

BACKGROUND

The Ministry's Community Services Program (Program) is responsible for supervising all adult offenders (18 years of age and older) and young offenders (16 to 17 years of age) who are under some form of conditional release—that is, who are on probation, serving a conditional sentence, or on parole.

Types of Conditional Release and Relative Percentages

Type of Conditional Release	Description	Percentage of Total Offenders Being Supervised in the Community
Probation order	Probation is a sentence imposed by the courts that allows offenders to serve their sentence under supervision in the community. Probation is generally focused on rehabilitation.	95
Conditional sentence	A conditional sentence is imposed by the courts and allows offenders to serve their sentences under supervision in the community. The option of conditional sentences was introduced in 1996. Conditional sentences are generally intended to be both punitive (through conditions like house arrest and curfews) and rehabilitative.	4
Parole certificate	Parole is the early release of an offender from a correctional institution under supervision in the community. Paroles can only be authorized by the Ontario Parole and Earned Release Board to eligible inmates after they have served one-third of their sentences in correctional institutions.	<1

Prepared by the Office of the Provincial Auditor of Ontario
Source of data: Ministry of Public Safety and Security

The objectives of the Program are to protect the public by monitoring offenders in the community and to rehabilitate offenders through training, treatment, and services that afford them the opportunities for successful personal and social adjustment in the community. The Ministry's mandate in this respect and provisions for probation and parole are defined in the *Ministry of Correctional Services Act*.

On any given day, there is an average of 65,000 offenders being supervised by the Ministry in the community. This represents almost 90% of Ontario's total correctional population. The other 10% consists of offenders who are in institutions serving sentences or on remand awaiting trial.

At the time of our audit, the Ministry employed approximately 770 probation and parole officers working in 41 area offices and 86 sub-offices throughout the province. In addition, as part of its Community Services Program, the Ministry also contracts with selected community agencies to provide a variety of non-residential services, such as substance abuse treatment, psychological therapy, and other counselling/treatment programs.

In 2001/02, total program expenditures amounted to $82 million—$63 million of which was spent on salaries and benefits.

AUDIT OBJECTIVES AND SCOPE

The objectives of our audit were to assess whether adequate procedures were in place to ensure that:

- offenders serving sentences in the community comply with the conditions of probation, conditional sentences, and parole;
- the Ministry measures and reports on the effectiveness of its services and programs; and
- the Ministry manages its human and financial resources with due regard for economy and efficiency.

Prior to the commencement of our audit, we identified the criteria that would be used to conclude on our audit objectives. These were reviewed and accepted by senior ministry management. Our audit was conducted in accordance with standards for assurance engagements, encompassing value for money and compliance, established by the Canadian Institute of Chartered Accountants, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

The scope of our audit, which was substantially completed in March 2002, included visits to five area offices, interviews with ministry officials, examinations of contracts with community service agencies, and reviews of offender files. We did not rely on the Ministry's internal auditors to reduce the extent of our work because they had not recently conducted work within the scope of our audit.

OVERALL AUDIT CONCLUSIONS

While acknowledging that the Ministry is in the process of implementing a new risk-based offender management model, we concluded that there were still a number of deficiencies in its procedures that hindered the effective supervision of offenders in the community. Specifically:

- The Ministry had not completed the required risk and needs assessments for many offenders under its supervision to reduce the risk that these individuals would reoffend while in the community and to ensure rehabilitation needs were identified. At the offices we visited, over 40% of offenders who had committed additional "level I" offences while under ministry supervision lacked a risk and needs assessment and/or a management plan. (Level I offences include sexual assault, assault causing bodily harm, uttering death threats, and other violent crimes.)
- When offenders did not comply with supervision conditions, the Ministry often did not take corrective action on a timely basis. At the five offices we visited, of the cases involving level I offenders who later committed additional offences while under ministry supervision, we noted that over 30% had not been followed up on a timely basis after the offender failed to comply with the conditions of their supervision.
- We estimated there were approximately 10,000 arrest warrants outstanding for offenders in the community, and warrants for some of these offenders had been issued as far back as 10 years. (Arrest warrants are issued when offenders fail to report to their probation and parole officer and cannot be located.) Many of these offenders were assessed as high risk and had committed level I offences. The Ministry did not know how many of the offenders against whom there were arrest warrants outstanding were still at large.

  While we recognize that once a warrant is issued, the police—not ministry staff—are responsible for apprehending the offenders, the Ministry and the police need to work more closely together to capture these high-risk offenders so as not to expose the community to significant risk.
- The Ministry had not adequately addressed the correctional needs of offenders in the community. According to internal ministry reports, correctional programs for offenders with addiction problems, anti-social behaviour, personality disorder, and sexual deviance were often not available in their local communities. For example, of the over 3,000 sex offenders being supervised by the Ministry in the community, less than 600 received appropriate rehabilitation programs.
- Probation and parole officers indicated to us that current caseload levels impaired their ability to effectively supervise and provide services to offenders in the community. In spring 2001, the Ministry was authorized to hire 165 more probation and parole officers (it then had 690) to address identified workload concerns. Although the Ministry had previously advised us that workload standards to determine the optimal

number of officers needed for efficient and effective delivery of services would be in place by 1996, these standards have still not been developed.

DETAILED AUDIT OBSERVATIONS

NEW OFFENDER MANAGEMENT MODEL

For many years, the Ministry has had in place an empirically based risk-assessment process that its probation and parole officers use to assess the risk that an offender will reoffend while under ministry supervision in the community. However, there was no process in place to deploy staff resources based on the results of these assessments.

We were pleased to note that since our 1995 audit of the Program, the Ministry, in 1999, initiated a new offender management model known as the Probation and Parole Service Delivery Model, which highlights offenders' correctional needs that should be addressed to effectively reduce the risk of offenders reoffending. Though not yet fully implemented, the new model is expected to concentrate resources on those offenders at a high risk of reoffending. Under the model, empirically based approaches in offender assessment and supervision, as well as rehabilitation programs, which have been shown to have positive impacts on reducing reoffending rates, are being incorporated into the day-to-day practices of probation and parole officers.

Based on assessed risk and needs, the new model places offenders in one of four intervention service streams to meet their correctional needs. The most intensive level of supervision is reserved for offenders assessed as being at greatest risk of reoffending. According to the Ministry, over 20% of offenders in Ontario are considered to be in this high-risk category, and another 30% are considered to be at medium risk. Effective implementation of the new model is expected to result in more efficient deployment of limited resources and a reduction in reoffending rates.

At the time of our audit, we noted that about 110 (over 80%) of the 127 probation and parole offices were in the process of implementing the new model. Of the 110, 39 had achieved full implementation. Ministry management has indicated that such major change in service delivery would take three to five years to fully implement.

We noted that the Ministry has already begun an evaluation process to assess whether offices where the model has been implemented are complying with the new model. We will follow up in two years on the progress of the implementation of the model.

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SUPERVISING OFFENDERS IN THE COMMUNITY

Risk and Needs Assessments and Management Plans

Regardless of the offender management model being used, effective supervision of offenders is crucial to the prevention of further reoffending. In this respect, probation and parole officers are required to complete a thorough risk and needs assessment and an individualized management plan to address the risks and needs for all offenders who report to them. According to ministry policy, probation and parole officers must complete each offender's risk and needs assessment and management plan within six weeks of the date of initial contact with the offender.

In the majority of offender files that we examined, we found that these key requirements of supervision—assessing risk and correctional needs and completing management plans—were not being met. These deficiencies existed even in the files of offenders who had committed level I offences, including sexual assault, assault with a weapon, and other violent crimes. At the offices we visited, over 40% of the offenders who had committed additional level I offences while under ministry supervision lacked a risk and needs assessment and/or a management plan.

Given the importance of risk assessments and management plans to the effective supervision and rehabilitation of offenders, not meeting these key requirements places the safety of the community at undue risk and does not assist offenders in adjusting successfully in the community.

Recommendation

To reduce the risk that offenders under ministry supervision will reoffend and to enhance the rehabilitation of these offenders, the Ministry should complete the required risk and needs assessments and management plans for these offenders on a timely basis.

Ministry Response

The Ministry is committed in policy and practice to timely completion of assessments and case plans for offenders under its jurisdiction.

The Ministry is addressing compliance with this policy in a number of ways. The hiring of the additional 165 probation and parole officers will facilitate workload distribution to improve more timely completion of offender assessments and management plans. In addition, the Ministry is reviewing current policy in an attempt to streamline the assessment requirements to ensure prioritizing and focusing of resources on higher-risk offenders. The Ministry is also finalizing revisions to probation and parole caseload audit

procedures to improve accountability, quality assurance, and performance management.

The initial impact of learning a new technology—that is, the Offender Tracking Information System (OTIS)—has affected the timelines of assessment and management plans input into the electronic system. It is expected that full implementation of this new business process will ultimately contribute to more accurate and timely access to information about offenders.

Through the collaborative evaluation process of the Probation and Parole Service Delivery Model, congruence with service delivery policy and practices is being evaluated. Based on evaluation findings, parole offices are required to put plans in place to improve in areas of deficiency.

Monitoring and Enforcing Compliance with Conditions of Supervision

A primary role of probation and parole officers in protecting public safety is to ensure offenders comply with the conditions outlined in supervision documents (probation orders, conditional sentences, and parole certificates). The type of conditions that offenders must comply with include: reporting to a probation and parole officer, performing community work, refraining from associating with any person engaged in criminal activity, attending treatment or counselling programs. With respect to probation and parole officers ensuring compliance with conditions, we found weaknesses in following up when offenders failed to comply with supervision conditions, even in cases of high-risk offenders. For instance, at the five offices we visited, of the cases involving level I offenders who later committed additional offences while under supervision, we noted that over 30% had not been followed up on a timely basis after the offender failed to comply with the conditions of their supervision.

In each instance of non-compliance, a probation and parole officer is required to make an enforcement decision and take appropriate action. Enforcement decisions can range from taking no action, to verbal or written cautions, to increased supervision, to seeking from the court an amendment to the supervision conditions, to charging the offender with a breach of conditions. In cases of probation and conditional sentences, the decision to initiate a charge of breach is at the discretion of the officer. In the case of parole, all violations must be reported to the Ontario Parole and Earned Release Board. In all cases, probation and parole officers are required to document the nature of the violation, the enforcement decision made, and the rationale for the decision.

Our audit revealed that in cases where offenders did not comply with supervision orders and enforcement action was not taken to address this non-compliance, almost two-thirds of the files we reviewed did not provide explanations as to why action was not taken.

In addition, with respect to conditional sentences involving house arrest or curfews as required by the courts, probation and parole officers informed us that they were unable to

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Our audit revealed that in cases where offenders did not comply with supervision orders and enforcement action was not taken to address this non-compliance, almost two-thirds of the files we reviewed did not provide explanations as to why action was not taken.

In addition, with respect to conditional sentences involving house arrest or curfews as required by the courts, probation and parole officers informed us that they were unable to ensure that these offenders were adhering to the conditions of their sentences because they have no means of monitoring compliance with such conditions. The Ministry indicated it was in the process of issuing a request for proposals under its electronic surveillance program to identify the best available technology and devices that it can utilize to ensure conditions for house arrests and curfews can be monitored.

Recommendation

To better ensure public safety, the Ministry should:

- **take timely and appropriate corrective action when offenders under ministry supervision fail to meet the conditions of their supervision, especially in cases of high-risk offenders; and**
- **ensure probation and parole officers properly document their decisions, including the rationale for not taking enforcement action in cases of non-compliance.**

Ministry Response

The Ministry is committed to ensuring that its mandate of monitoring and enforcing conditions is met.

Ministry policy emphasizes the need for timely enforcement decisions and documentation in cases of non-compliance. In all cases where non-compliance occurs and enforcement action is not taken, the rationale for not doing so is to be thoroughly documented as an enforcement decision. Probation and parole officers will be reminded of the requirement to document all enforcement decisions.

Workload issues have been noted as affecting probation and parole officers' ability to complete all duties in a timely manner. The Ministry is continuing to review ways of reducing workload for probation and parole officers. As well, the Ministry has hired an additional 165 probation and parole officers in order to provide more intensive supervision and monitoring of higher-risk offenders, thus ensuring public safety.

Outstanding Arrest Warrants

Arrest warrants are issued by courts at the request of probation and parole officers when offenders have failed to report to their probation and parole officers and cannot be located. Such offenders pose a risk to the community because the Ministry is unable to supervise them, and they may reoffend while at large in the community.

In the five area offices we visited, we noted there were over 1,500 offenders against whom there were arrest warrants outstanding, and some of the related warrants dated as far back as 10 years. Our review found that over 30% of these arrest warrants were for offenders who were assessed to be high risk and had committed level I offences (including sexual assault, assault causing bodily harm, uttering death threats, and other violent crimes). We estimated that province-wide there could be over 10,000 outstanding arrest warrants. The Ministry did not have records indicating how many offenders against whom there were arrest warrants outstanding have not been apprehended.

We recognize that once a warrant is issued, the police—not ministry staff—are responsible for apprehending the offenders. However, the Ministry and the police need to work more closely together to capture these high-risk offenders so as not to expose the community to significant risk.

Recommendation

To better protect the safety of the community and enhance the credibility of the justice system, the Ministry should work more closely with the police to ensure that high-risk offenders against whom there are arrest warrants outstanding are apprehended in a timely manner.

Ministry Response

As noted by the Provincial Auditor, the police are responsible for apprehending offenders with outstanding arrest warrants. The Ministry recognizes the importance of apprehending high-risk offenders against whom there are arrest warrants outstanding, and Correctional Services is working with the Policing Services Division of the Ministry of Public Safety and Security to address this issue.

In addition, the Ministry has already demonstrated its commitment to working closely with the police and will build on the following initiatives to ensure that high-risk offenders against whom there are arrest warrants outstanding are apprehended in a timely manner:

- ***As a component of the Probation and Parole Service Delivery Model, to improve intensive supervision for offenders who are at a higher risk to reoffend, strong linkages between probation and policing services have been developed. Each probation and parole office is directed to work with local police agencies to develop protocols for the enhanced management of offenders who are assessed as posing a higher risk of reoffending. These protocols will be reviewed in the context of this recommendation.***
- ***In August 2001, the government approved the implementation of a provincial enforcement unit, the Repeat Offender Parole Enforcement Unit, which focuses on the apprehension of parole violators/fugitives as well as persons identified as being unlawfully at large throughout the province. Correctional Services will work with this unit and other regional and municipal police forces to explore solutions to ensure the apprehension of high-risk offenders against whom there are arrest warrants outstanding.***

ensure that these offenders were adhering to the conditions of their sentences because they have no means of monitoring compliance with such conditions. The Ministry indicated it was in the process of issuing a request for proposals under its electronic surveillance program to identify the best available technology and devices that it can utilize to ensure conditions for house arrests and curfews can be monitored.

Recommendation

To better ensure public safety, the Ministry should:

- **take timely and appropriate corrective action when offenders under ministry supervision fail to meet the conditions of their supervision, especially in cases of high-risk offenders; and**
- **ensure probation and parole officers properly document their decisions, including the rationale for not taking enforcement action in cases of non-compliance.**

Ministry Response

The Ministry is committed to ensuring that its mandate of monitoring and enforcing conditions is met.

Ministry policy emphasizes the need for timely enforcement decisions and documentation in cases of non-compliance. In all cases where non-compliance occurs and enforcement action is not taken, the rationale for not doing so is to be thoroughly documented as an enforcement decision. Probation and parole officers will be reminded of the requirement to document all enforcement decisions.

Workload issues have been noted as affecting probation and parole officers' ability to complete all duties in a timely manner. The Ministry is continuing to review ways of reducing workload for probation and parole officers. As well, the Ministry has hired an additional 165 probation and parole officers in order to provide more intensive supervision and monitoring of higher-risk offenders, thus ensuring public safety.

Outstanding Arrest Warrants

Arrest warrants are issued by courts at the request of probation and parole officers when offenders have failed to report to their probation and parole officers and cannot be located. Such offenders pose a risk to the community because the Ministry is unable to supervise them, and they may reoffend while at large in the community.

In the five area offices we visited, we noted there were over 1,500 offenders against whom there were arrest warrants outstanding, and some of the related warrants dated as far back as 10 years. Our review found that over 30% of these arrest warrants were for offenders who were assessed to be high risk and had committed level I offences (including sexual assault, assault causing bodily harm, uttering death threats, and other violent crimes). We estimated that province-wide there could be over 10,000 outstanding arrest warrants. The Ministry did not have records indicating how many offenders against whom there were arrest warrants outstanding have not been apprehended.

We recognize that once a warrant is issued, the police—not ministry staff—are responsible for apprehending the offenders. However, the Ministry and the police need to work more closely together to capture these high-risk offenders so as not to expose the community to significant risk.

Recommendation

To better protect the safety of the community and enhance the credibility of the justice system, the Ministry should work more closely with the police to ensure that high-risk offenders against whom there are arrest warrants outstanding are apprehended in a timely manner.

Ministry Response

As noted by the Provincial Auditor, the police are responsible for apprehending offenders with outstanding arrest warrants. The Ministry recognizes the importance of apprehending high-risk offenders against whom there are arrest warrants outstanding, and Correctional Services is working with the Policing Services Division of the Ministry of Public Safety and Security to address this issue.

In addition, the Ministry has already demonstrated its commitment to working closely with the police and will build on the following initiatives to ensure that high-risk offenders against whom there are arrest warrants outstanding are apprehended in a timely manner:

- ***As a component of the Probation and Parole Service Delivery Model, to improve intensive supervision for offenders who are at a higher risk to reoffend, strong linkages between probation and policing services have been developed. Each probation and parole office is directed to work with local police agencies to develop protocols for the enhanced management of offenders who are assessed as posing a higher risk of reoffending. These protocols will be reviewed in the context of this recommendation.***
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As well, the Integrated Justice Project, when fully implemented, will permit offender and offence information to be shared across the justice sectors, including the Canadian Police Information Centre. Integration of the different sources of information will lead to greater and more timely access to information and a justice system that is more accessible, efficient, and effective.

REHABILITATION PROGRAMS

While risk assessments determine the likelihood of reoffending, rehabilitation programs are aimed at addressing the correctional needs of offenders in the community and thereby reducing the risk of reoffending. Research done by the Ministry shows that punishment and surveillance are not effective in reducing reoffending rates. Instead, what is effective in reducing reoffending rates is addressing the correctional needs of offenders through rehabilitation programs, such as anger management and substance abuse treatment.

On average, offenders spend over one year under supervision in the community, and 70% of offenders spend more than six months under supervision. Such lengthy supervision periods give the Ministry an opportunity to provide rehabilitation programming that is geared to reducing the risk to the community by addressing the correctional needs of these offenders.

The Ministry has recognized the need to provide rehabilitation treatment and programs to offenders in the community. In fact, we noted at the time of our audit that the Ministry had developed three core rehabilitation programs designed to address the correctional factors that have been empirically determined to be the most common within the offender population and had implemented these programs in 39 of its 127 probation and parole offices. These programs are aimed at anger management, substance abuse treatment, and anti-criminal thinking.

Nevertheless, the Ministry's current Community Services Program focuses more on supervisory conditions than on rehabilitation services. Supervisory conditions include measures like community service orders, which are court-ordered sanctions that require offenders to perform a specified amount of unpaid work in the community under the supervision of a probation and parole officer or contracted agency. In 2000/01, of the $8 million the Ministry spent on community contracts, about $2 million was spent on rehabilitation programs while about $6 million was spent on supervisory conditions.

According to an internal ministry report, correctional programs to meet the needs of offenders with addiction problems, anti-social behaviour, personality disorder, and sexual deviance were generally not available. For example, the report indicated that of the over 3,000 sex offenders being supervised by the Ministry in the community, fewer than 600 received appropriate programs. This lack of rehabilitation programs to meet the correctional needs of offenders diminishes the effectiveness of community supervision.

Recommendation

To provide offenders under the Ministry's supervision with better opportunities for successful personal and social adjustment in the community, the Ministry should ensure the availability of rehabilitation programs that offenders need.

Ministry Response

The Ministry is committed to promoting the increased availability of core programs throughout the correctional system through the combined efforts of the Core Program Consultant (a newly dedicated position), the Program Effectiveness Unit, and staff working under the Probation and Parole Service Delivery Model.

Under the Probation and Parole Service Delivery Model, core programs address substance abuse, anger management, and anti-criminal thinking. As well, specialized programs for partner abuse and sexual offenders are offered. There are two levels of core rehabilitative programs: a general orientation rehabilitative group and an intensive rehabilitative group. Important components of the core rehabilitative programs are the achievement of consistency in approach across the Ministry and the continuity of programming between the institutional part of the Ministry and Probation and Parole. Assessment and evaluation are key components to determine the effectiveness of the intervention in reducing offender recidivism.

A concerted effort is underway to expand the availability of core programs to all Probation and Parole offices.

PROBATION AND PAROLE OFFICERS

Caseloads and Workloads

The number of cases that probation and parole officers supervise has increased almost 8% in five years—from 60,000 offenders under supervision in 1995/96 to 65,000 offenders in 2000/01. This increase in the caseload is due mainly to the introduction of conditional sentences as a sentencing option in 1996.

Prior to spring 2001, the Ministry had 690 probation and parole officers. Recognizing the need for more resources to handle the increase in caseload, the Ministry was authorized to hire, in two phases, an additional 165 officers. This would represent about a 20% increase in staff. The Ministry estimated that this will eventually lower the average caseload per officer to about 85. At the time of our audit, the average caseload per officer was 95. The average caseload per officer for other Canadian provinces was about 70, but according to the Ministry it would not be fair to make a comparison with other jurisdictions because of differences that may exist in the responsibilities of officers, including administrative responsibilities.

As well, the Integrated Justice Project, when fully implemented, will permit offender and offence information to be shared across the justice sectors, including the Canadian Police Information Centre. Integration of the different sources of information will lead to greater and more timely access to information and a justice system that is more accessible, efficient, and effective.

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Probation and parole officers' work involves supervision, enforcement, and providing counselling and referral services to offenders in accordance with the offender's assessed risks and needs. Probation and parole officers are also required to prepare court reports, attend court for trials, confirm collateral information (such as an offender's address and employment), and liaise with community service agencies. In addition to their caseloads, with the ongoing implementation of the new Probation and Parole Service Delivery Model, many probation and parole offers are also delivering rehabilitation programs such as anti-criminal thinking, substance abuse treatment, and anger management.

Moreover, with the introduction of conditional sentencing in 1996, the profile of offenders being supervised in the community has changed. Many offenders who would have previously been incarcerated are now serving their sentences in the community. These offenders include those with mental health, substance abuse, and other problems. This change in profile has resulted in the need for officers to increase their counselling and rehabilitative efforts to contribute to the safety of the community.

Our discussions with probation and parole officers indicated that a greater number of cases and increased responsibilities have impaired the ability of officers to do their jobs effectively. While the current supervision model expects probation and parole officers to be actively involved with community agencies and with offenders in the community, officers describe their jobs as being "office bound" and indicate that larger caseloads impair their ability to conduct home visits and to liaise with community partners engaged in prevention or collaborative initiatives designed to meet offenders' identified needs.

In our previous audit of this program in 1995, we noted that the Ministry recognized that workload was a concern to probation and parole officers and area office management and had been since 1989. In 1995, we recommended that the Ministry establish workload standards and use them to analyze staffing so that staffing could be deployed in a more efficient manner. At that time, the Ministry indicated that a probation/parole workload index would be implemented by February 1996. When we followed up in 1997, the implementation of the index had been delayed for later in 1997. During this audit, there was still no workload index in place.

Ministry management indicated that, because of the implementation of the new Probation and Parole Service Delivery Model and the introduction of a new Offender Tracking and Information System (OTIS), the workload index that was being developed in 1997 was no longer applicable. For instance, under the new service delivery model, officers are now leading rehabilitation groups and are engaged in other activities that were not reflected in the range of assignable activities when the workload index was developed.

In the absence of a workload index, managers lack the appropriate tools to balance officer caseloads and workloads within their area offices. Similarly, without appropriate workload standards, the Ministry cannot determine the optimal number of officers needed and cannot effectively allocate work and deploy staff among area offices throughout the province.

Recommendation

The Ministry should develop workload standards and use them to analyze staffing requirements so that staff can be deployed in a more efficient and effective manner.

Ministry Response

In 1997, the Ministry developed and tested a workload index to assist in the measurement of probation and parole workload. As a result of the difficulties associated with the weighting of various workload factors (including geographical disparities), this tool was not widely used. It should be noted that the complexities of developing a workload index have also been experienced in other jurisdictions. Furthermore, the 1997 workload index is outdated as it does not account for the changes resulting from the Probation and Parole Service Delivery Model or the Offender Tracking Information System.

Although some workload factors will continue to be very difficult to measure (for example, delivering programs in a group setting), the Ministry is committed to developing a framework for workload measurement within the context of its new service delivery model in order to effectively allocate staff and distribute workload.

OFFENDER TRACKING AND INFORMATION SYSTEM

As part of a larger modernization project of the justice information system—the Integrated Justice Project—the Ministry has implemented a new electronic Offender Tracking and Information System (OTIS) to replace the former Offender Management System. OTIS is an Internet-based system that allows for the sharing of offenders' information among partners in the justice system, including police, Crown attorneys, and the courts. Our review and discussion with ministry staff indicated that while OTIS supports the sharing of information with other partners, it does not facilitate probation and parole officers' case management. Specifically:

- The design of the new system does not allow officers to easily and readily assess an offender's history and the types of offences committed (because the information is not captured and displayed on one screen but is instead stored and arranged among several different screens). As a result, there is an increased risk that critical information is missed when officers are reviewing information concerning offenders under their supervision.
- The Internet-based system is vulnerable to frequent crashes. As a result, case management notes can be lost without warning.

In addition, in all the offices we visited, probation and parole officers complained that excessive time was being spent on the case management component of the system.

Recommendation

The Ministry should develop workload standards and use them to analyze staffing requirements so that staff can be deployed in a more efficient and effective manner.

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In addition, in all the offices we visited, probation and parole officers complained that excessive time was being spent on the case management component of the system.

Previously, case management notes were captured using a simple word-processing application, which enabled probation and parole officers to easily record and exchange offender case notes internally. Officers also indicated that case management notes contain confidential information not to be shared with other partners, and it was therefore not necessary to have such notes included in the Internet-based system.

In our 2001 Annual Report, we also noted that there were inadequate controls to prevent unauthorized access to offender records. Ministry senior management indicated that it is in the process of making improvements to the system. As an interim measure, offices have been given the option to use the previous word-processing application for their case management.

We recognize that the system is new and that the Ministry is taking measures to address the problems identified. We will follow up in two years on the Ministry's progress towards correcting the problems with its information system.

FUNDING AND MONITORING COMMUNITY SERVICE AGENCIES

The Ministry contracts with selected community agencies to provide a variety of non-residential programs and services, including substance abuse programs, psychological therapy, counseling/treatment programs, and the supervision of community service orders (court ordered sanctions that require offenders to perform unpaid work in the community). In some cases, these programs are prescribed on an individual basis by the court or the Ontario Parole and Earned Release Board. In other cases, the probation and parole officer makes the appropriate referral after completing a comprehensive assessment of the corrective needs of the offender.

In 2001/02, funding to these community service agencies amounted to $8 million. This funding is based on annual budgets that agencies submit.

While the Ministry is not involved in the day-to-day operations of these agencies, ministry policy requires that contracted agencies comply with ministry standards and guidelines for supervision, security, and services. At the time the contract is negotiated, clear expectations of performance and documentation are to be established with each agency—including a ministry review of caseload statistics, offender progress reports, and financial records—to ensure that expenditures are properly recorded and disbursed in accordance with ministry policies.

Our review of arrangements with community service agencies with the five area offices we visited revealed the following:

- Instead of funding agency programs based on a proper assessment of the service levels required to meet the needs of offenders, the Ministry was funding the programs based on historical costs. Management indicated that the historically based funding approach was a function of a lack of resources allocated to the programs.

- Contracts were generally not signed on a timely basis. In some cases, contracts were signed almost 11 months after the agency began providing services. In fact, for six of the 12 contracts we examined, approximately $220,000 was paid to agencies before the required contracts were in place. Furthermore, under two of these six contracts, agencies received their full funding before their contract was in place.
- Monitoring and feedback mechanisms established by the Ministry to ensure agency accountability—such as offender case statistics, progress reports, and financial statements—were not received in the majority of the cases we reviewed.

Because the Ministry did not properly assess service-level requirements and did not adequately monitor the services being delivered by agencies, it could not assess whether funding levels were appropriate and whether agency programs were meeting the needs of the offenders.

Recommendation

To ensure both due regard for economy and efficiency and accountability for service performance, the Ministry should ensure that:

- **funding to community service agencies that provide programs to offenders is based on a proper assessment of service-level requirements;**
- **payments made to these community service agencies are properly supported by signed contracts; and,**
- **services provided by such agencies are monitored to confirm that they adhere to ministry standards and meet the needs of offenders and that funds are used prudently.**

Ministry Response

The Ministry is committed to ensuring that services provided by community agencies are funded appropriately, are monitored to meet ministry standards, and meet offender needs. A template for a "letter of intent" was developed for use with contracted agencies to allow for the continuation of annualized funding until contract negotiations are complete.

Draft performance outcomes—a measurement of various related indicators that define the performance expectations of the standards of operations—have been developed in the management of open-custody facilities. Following the completion of a consultation process with open-custody operators, the new performance-measurement framework will be implemented in the 2002/03 fiscal year.

The Program Effectiveness Unit has submitted a proposal to Management Board Secretariat for funding to conduct a systematic evaluation of contracts, and a decision is pending.

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MEASURING AND REPORTING ON PROGRAM EFFECTIVENESS

The rate of recidivism is the most commonly used measure of the performance of the correctional system. While there is strong public and government interest in using recidivism rates to judge the performance of the correctional system—both in terms of effectiveness and efficiency—there is no generally accepted definition of recidivism in Canada or internationally.

To its credit, the Ministry has defined recidivism and intends to measure its performance based on this definition. It defines recidivism as a return to correctional supervision following conviction for a criminal offence committed either during or after correctional supervision.

However, we noted that the Ministry had not yet measured and reported on the effectiveness of community supervision and rehabilitation programs in contributing to public safety and the re-integration of offenders into the community. At the time of our audit, the Ministry was still in the process of establishing baselines and standards to measure and report on recidivism.

Recommendation

The Ministry should implement performance measures to assess the effectiveness of the Community Services Program in contributing to public safety and the rehabilitation of offenders.

Ministry Response

The Ministry introduced a new performance framework as part of its transformation strategy to apply to all adult correctional institutions and will apply a similar performance framework across community correctional supervision. The reduction of reoffending rates is a key focus of the performance framework. Work that has commenced regarding performance measures and indicators for community corrections includes measures relating to recidivism, enforcement activity, intensive supervision, training for probation and parole officers, and the per diem cost per offender for community supervision.

The Ministry developed a recidivism definition—which then led to the establishment of baseline rates—using representative release samples from 1992, 1993, and 1997. Since the implementation of the Offender Tracking Information System, work is underway to gather the necessary data in order to measure the effectiveness of correctional policies and programs related to the rehabilitation of offenders. The Ministry expects to implement data collection processes in 2002/03.

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3.09–The Ontario Parole and Earned Release Board

BACKGROUND

The Ontario Parole and Earned Release Board (Board) derives its authority from the federal *Corrections and Conditional Release Act* and the provincial *Ministry of Correctional Services Act*. It makes decisions about parole for offenders sentenced to less than two years of imprisonment. Offenders are eligible for parole consideration upon serving one third of their sentences. Offenders who are granted parole serve the remainder of their sentences in the community under the supervision of a parole officer. Without parole, offenders are normally released after serving two thirds of their sentences.

The National Parole Board makes parole decisions on behalf of all other provinces except British Columbia and Quebec. The National Parole Board also makes parole decisions for all offenders who have been sentenced to imprisonment for two or more years because those offenders fall under federal jurisdiction.

The *Correctional Accountability Act*, proclaimed on July 3, 2001, changed the former Ontario Board of Parole into the current Board and expanded its traditional role of making decisions on parole to include decisions on whether offenders have earned enough credit days while incarcerated (by participating in rehabilitative programs, demonstrating positive behaviour, and being drug-free) for release. The Board was also given the responsibility for decisions about granting temporary absences over 72 hours.

At the time of our audit, the Board had four full-time members, including the Chair, and over forty part-time members. Most full-time members have a correctional services or criminal justice background; part-time members are lay people representing their local communities. A quorum of two members is required to conduct a parole hearing. In case of a split decision, a new hearing is scheduled with three different members attending.

For the 2001/02 fiscal year, the Board's total expenditures amounted to approximately $3 million. For the 2000/01 fiscal year, approximately 2,100 parole hearings were held, 28% of which resulted in parole being granted.

AUDIT OBJECTIVES AND SCOPE

The objectives of our audit were to assess whether the Board had adequate procedures in place to ensure that parole decisions were made in accordance with legislative and board policies as well as to measure and report on its effectiveness in contributing to public safety and facilitating the reintegration of offenders into society.

Prior to the commencement of our audit, we identified criteria that would be used to conclude on our audit objectives. These were reviewed and accepted by the Board's Chair.

Our audit was conducted in accordance with the standards for assurance engagements, encompassing value for money and compliance, established by the Canadian Institute of Chartered Accountants, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

Our audit work, which was substantially completed in March 2002, included visits to the Board's head office and three of its four regional offices. It also included an examination of parole files and other internal board documents, discussions with board and ministry officials, observation of parole hearings, and research into parole practices in other Canadian jurisdictions. Our audit did not include the Board's decisions on earned release and temporary absences over 72 hours, as the Board had not made any decision on earned release and implementation of the Temporary Absence Program began only in January 2002.

OVERALL AUDIT CONCLUSIONS

We concluded that the Board's mandate of protecting society by effectively reintegrating offenders into the community was hindered by a dramatic reduction in the number of eligible inmates being considered for parole. Specifically, the decline in the number of hearings from 6,600 to 2,100, combined with a steady drop in parole grant rates from 59% to 28%, has resulted in fewer than 600 inmates being granted parole in 2000/01, as compared to 3,800 in 1993/94.

According to board studies, factors contributing to this decline included inmates not receiving the required parole information and inmates waiving parole hearings because they felt there was little chance of getting a fair and unbiased hearing.

In one of the four regions, we found that it was a matter of practice to deny any applications for a parole hearing from inmates serving 122 days or less, thus depriving a significant number of offenders of the opportunity to have their cases heard. This is particularly significant in that 85% of Ontario's inmates generally serve sentences of less than six months and on average are sentenced to only about 70 days.

We also concluded that:

- The Board had set performance goals for 2001/02 below those already achieved; thus, its goals do not serve to encourage an improvement in board performance.
- The Board had not conducted quality assurance and performance reviews as required by board policy. In cases where reviews were done, the results of the reviews were not used to improve the quality of decision-making and the performance of board members.
- Ontario had no formal selection process to assess the abilities, skills, commitment, and suitability of potential board members, nor did the Board have the opportunity to provide input on the initial screening of potential candidates.
- The Board had not recorded its rationale for its decisions not to impose special conditions that had been recommended by parole officers or police. Examples of recommended conditions included the requirement that parolees have no contact with their victims and the requirement that parolees do not possess firearms.

In addition, we found that, although Ontario's parole grant rates have significantly declined since 1993/94, its rates of parolees reoffending during parole have been generally higher since that same time. This situation requires research by the Board to determine what further action, if any, is required.

It is worthy to note that, with regard to reviewing reports from parole officers, modifying parole conditions, and, when necessary, issuing revocations and arrest warrants, the Board acted in an appropriate and timely manner.

Overall Board Response

The Ontario Parole and Earned Release Board and the Ministry of Public Safety and Security are in the midst of a comprehensive review of the Board's organizational and accountability structure. This review will significantly enhance the Board's ability to implement recommendations made by the Provincial Auditor.

The review was prompted by the recent construction/enlargement of three provincial correctional centres and concurrent closure of many older, smaller facilities. These three institutions will soon house 72% of Ontario's inmates serving sentences of six months or more.

The rationalization of ministry correctional facilities will require the Board to restructure its resources. While the bulk of the Board's work will take place at the three new facilities, the Board's offices are currently spread out across the province. Ideally, these offices should be co-located in provincial correctional institutions. The Board is also reviewing options to reorganize its management structure to promote efficiencies and best practices and move from a paper-based to an electronic hearing system.

We also concluded that:

- The Board had set performance goals for 2001/02 below those already achieved; thus, its goals do not serve to encourage an improvement in board performance.
- The Board had not conducted quality assurance and performance reviews as required by board policy. In cases where reviews were done, the results of the reviews were not used to improve the quality of decision-making and the performance of board members.
- Ontario had no formal selection process to assess the abilities, skills, commitment, and suitability of potential board members, nor did the Board have the opportunity to provide input on the initial screening of potential candidates.
- The Board had not recorded its rationale for its decisions not to impose special conditions that had been recommended by parole officers or police. Examples of recommended conditions included the requirement that parolees have no contact with their victims and the requirement that parolees do not possess firearms.

In addition, we found that, although Ontario's parole grant rates have significantly declined since 1993/94, its rates of parolees reoffending during parole have been generally higher since that same time. This situation requires research by the Board to determine what further action, if any, is required.

It is worthy to note that, with regard to reviewing reports from parole officers, modifying parole conditions, and, when necessary, issuing revocations and arrest warrants, the Board acted in an appropriate and timely manner.

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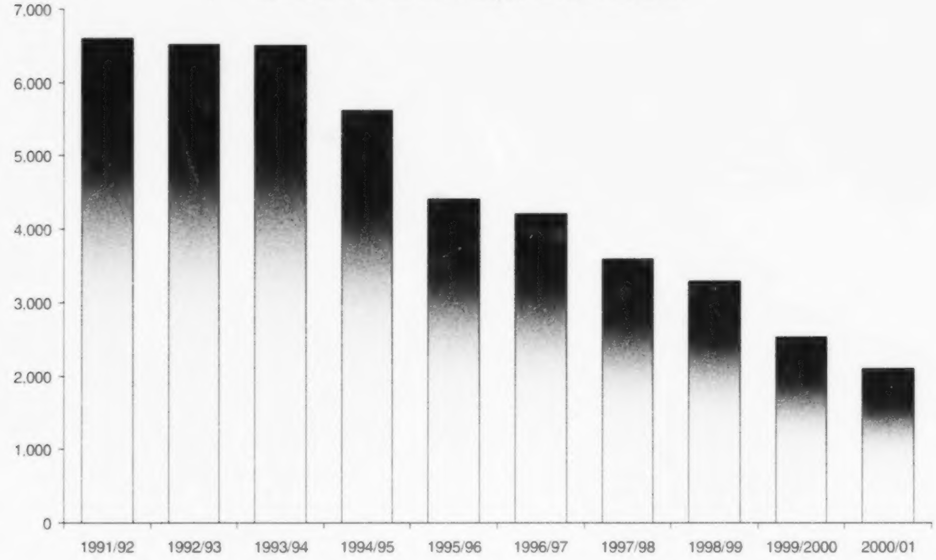
DETAILED AUDIT OBSERVATIONS

The *Corrections and Conditional Release Act* states that the purpose of parole is to "contribute to the maintenance of a just, peaceful and safe society by means of decisions on the timing and conditions of release that will best facilitate the rehabilitation of offenders and their reintegration into the community as law-abiding citizens." In guiding the decisions of the Board, the Act also specifies "that the protection of society be the paramount consideration in the determination of any case."

NUMBER OF PAROLE HEARINGS

Over the last 10 years, the number of board hearings relating to decisions in granting or denying parole have declined significantly, as the following table shows.

Number of Parole Hearings, 1991/92–2000/01



Source of data: The Ontario Parole and Earned Release Board

The number of parole hearings involving granting or denying decisions has declined by 66% from about 6,600 in 1993/94 to fewer than 2,100 in 2000/01. A general decline in crime rates and the introduction in 1996 of conditional sentencing, which allows offenders to serve their sentences under supervision in the community, have reduced the number of offenders sentenced to Ontario correctional institutions. However, the decline in the crime rate has been gradual, and the use of conditional sentencing stabilized shortly after its introduction. Thus, these two factors alone do not account for the sharp reduction in the number of hearings in the last few years.

According to studies conducted by the Board, a more important factor is that a significant number of offenders is not even interested in parole. Under current legislation, inmates with sentences of less than six months must apply for a parole hearing in writing, whereas those serving longer sentences will automatically have a hearing scheduled, unless they waive the right to a hearing in writing. Since 1995, the monthly number of waivers signed by offenders has often been the same as or greater than the number of hearings completed.

To help determine the reasons for the decline in requests for hearings, the Board commissioned two studies, one in 1999/2000 and the other in 2000/01. For example, the first study reviewed written reasons for the waivers and interviewed inmates in all regions. That study reported that the majority of inmates had noted on their waiver forms that they were either not interested in parole or that parole was a waste of time. Others indicated that they were receiving treatment in their respective institutions or that they had no residence outside those institutions. The second study consisted of interviews with inmates from one institution.

Common observations of the two studies included the following:

- Ministry correctional staff had not provided proper parole information to inmates as required by the Ministry's Memorandum of Understanding with the Board. For example, the first study pointed out that not only were pamphlets and videos with information about parole not shown to offenders, but in a number of correctional institutions such pamphlets were not even available. The study indicated that "parole was often presented in a negative light and parole hearings were not encouraged, but instead parole waiver forms were often on hand ready for completion."
- Inmates reported that they felt they had little chance of having a fair and unbiased parole hearing. Accordingly, many did not want to go through the motions of a hearing.

In addition to the increase in the number of waivers from long-term offenders (those serving six months or longer) that these studies focused on, we noted that there was also a significant problem in the processing of applications for hearings from short-term offenders (those serving less than six months).

In Ontario, over 85% of inmates generally serve sentences of less than six months, and on average, provincial inmates are sentenced to only about 70 days. The majority of short-term inmates are not considered by the Board to be violent or high risk and would benefit from appropriate supervision and treatment programs in the community.

However, our audit indicated that less than one per cent of Ontario's short-term offenders had received parole hearings in recent years. Board management indicated that it was not practical to hold hearings for inmates with sentences of less than 90 days, as the Board might not have enough time to gather all the information necessary for the hearings. We examined applications for parole in the three regions we visited and found that applications had not been considered consistently across the province. Specifically, we noted the following:

- In one region, the majority of short-term offenders who applied for a parole hearing were denied one. The senior board member for the region informed us that in that region it was a matter of practice to deny any hearing applications from inmates serving

122 days or less. Consequently, a significant number of offenders who might have benefited from parole were not given the opportunity to have their cases heard.

- Another region could not identify short-term offenders whose applications for a parole hearing had been denied because it did not keep a complete record of denied applications.

Under current legislation, inmates not granted parole are released after serving two thirds of their sentences, while those granted parole must serve the full length of their sentences with one third in the institution and two thirds in the community under supervision and conditions set by the Board. Effectiveness in promoting the safety of society requires the Board to help as many low-risk offenders as possible successfully reintegrate into the community by controlling the timing and conditions of their release.

Recommendation

To more effectively control the timing and conditions of release of inmates, the Board should:

- **work with the Ministry to ensure that correctional institutions provide inmates with proper information about parole; and**
- **review regional practices to ensure that consistent and equitable access is provided to offenders applying for parole hearings.**

Board Response

The proposed restructuring of the Board will place senior board members and case officers directly in the most populated institutions and will lead to inmates receiving better information about parole and earned release programs.

The corporate office will review the information packages given to provincial inmates to assure completeness, currency, and accuracy.

The Board will specify and reiterate expectations for the timeliness and accuracy of information given to inmates on admission by the Ministry and for the quality, timeliness, and relevance of information provided to the Board by institutional employees with respect to parole applications, certain temporary absence requests, and eventually earned remission awards.

Case officers at major institutions will be available to answer specific questions posed by inmates about any aspects of the parole process. They will also ensure inmates receive adequate information about parole and temporary absence applications.

The memorandum of understanding (MOU) between the Ministry and the Board will be rewritten to clearly specify the Board's expectations with respect to the quality and timeliness of information received by inmates about parole on admission. Furthermore, the MOU will underscore the high expectations

that the Board holds for the receipt of timely, complete, and accurate information from the Ministry and the manner in which ministry employees process applications for parole.

Board policies and procedures will be substantially reviewed to provide clear direction to board members and employees with respect to a single, consistent approach for processing applications for parole. These policies will also provide clear direction on how records of both approved and denied cases are maintained, collected, and reported. The performance objectives of board members and employees will be adjusted to include clear measures of their responsibilities in processing parole applications. The corporate office will implement a regime to regularly assess the manner in which parole applications are reviewed and responded to by the board members and employees and correct any shortcomings. Board training policies and programs will be reviewed and adjusted, where required, to provide for appropriate initial and ongoing training for board members and employees on their roles and obligations for processing applications for parole.

PAROLE DECISIONS AND THEIR IMPACT ON REOFFENDING

A parole board's most important function is to decide whether inmates should be granted or denied parole. All parole decisions are governed by legislated criteria, stipulated by the federal *Corrections and Conditional Release Act*, which require the determination of whether:

- an offender presents an undue risk to society by reoffending before sentence expiration; and
- release would contribute to the protection of society by facilitating reintegration of the offender into the community as a law-abiding citizen.

Thus, in any given year, the parole grant rate reflects a parole board's application of legislative criteria in assessing the risk offenders pose to the community, as well as the availability of community supports and resources for the reintegration of the offenders. Community supports and resources include the adequacy of supervision by parole officers and other community programs and resources that enable a gradual release of inmates into society.

Between 1993/94 and 2000/01, the number of offenders granted parole declined from over 3,800 to fewer than 600. Parole grant rates have been steadily declining since 1993/94, from 59% in 1993/94 to 28% in 2000/01. The decline in the number of hearings combined with the drop in parole grant rates has resulted in an 85% reduction in the number of offenders granted parole over the last seven years.

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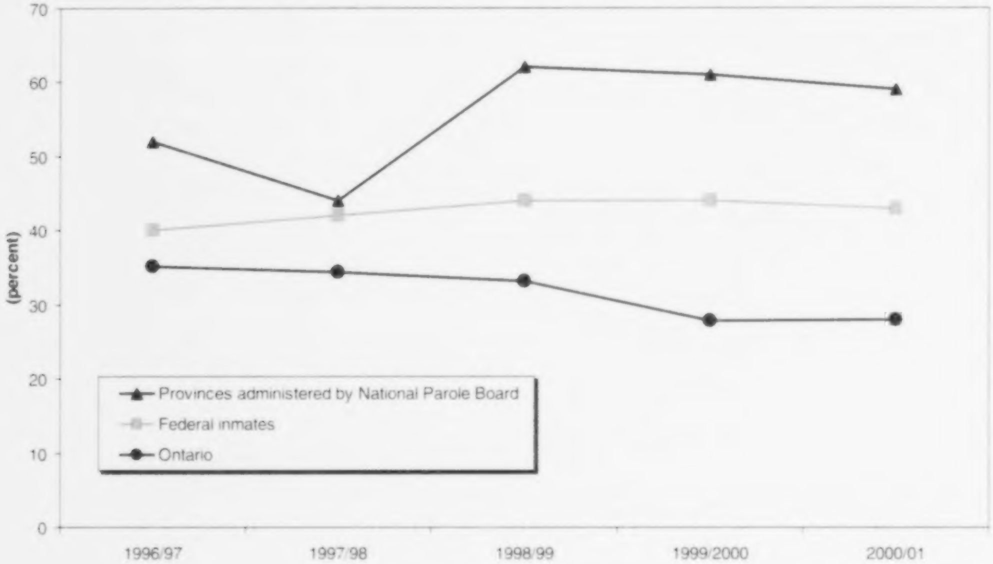
The chart below is a comparison of Ontario's parole grant rates with those of other Canadian jurisdictions. Statistics were not available from B.C. Senior board management informed us that Quebec's parole board rates of parole were not suitable for comparison with Ontario's because its parole program policies differ from those of Ontario.

Parole Grant Rates Across Canada, 1996/97–2000/01



Source of data: The Ontario Parole and Earned Release Board and the National Parole Board

Despite the fact that the same legislated criteria are used for all parole decisions in Canada, Ontario's parole grant rates were significantly lower than the rates for other provinces and even lower than rates for federal offenders, who are deemed in general to be of significantly higher risk.

Ministry data show that the reoffending rate for provincial inmates released without parole is about 60% within two years of their release. Board data on parolees released since 1995/96 indicated two-year reoffending rates ranging from 18% to 23% over those years. Research by the Ministry indicated that with support and intervention in the community, a significant reduction in the rate of reoffending is achievable. This research also indicated that a lack of community support and intervention with low-risk offenders could actually increase the reoffending rate. These research findings are in accord with the *Corrections and Conditional Release Act* requirement that parole boards "make the least restrictive determination consistent with the protection of society."

We reviewed Ontario's statistics for the last 10 years for reoffending during parole to determine whether the significantly lower parole grant rates since 1993/94 resulted in corresponding reductions in the rates of reoffending during parole. Available parole statistics from the Board for the last 10 years are outlined in the following table.

Ontario Parole Grant Rates and Reoffending Rates, 1991/92–2000/01

Fiscal Year	Parole Grant Rate (%)	Reoffending Rate (%)
1991/92	52	1.8
1992/93	53	2.5
1993/94	59	1.6
1994/95	49	4.2
1995/96	42	3.2
1996/97	35	3.6
1997/98	34	2.3
1998/99	33	4.4
1999/2000	28	3.9
2000/01	28	3.5

Source of data: The Ontario Parole and Earned Release Board

As the table indicates, while Ontario's parole system has been releasing relatively fewer offenders on parole in recent years, proportionally more of those parolees have reoffended during parole compared with the rates of reoffending from before 1994/95.

Reoffending by parolees during parole depends on the motivation of parolees and many other factors, such as proper application of parole criteria by the Board in assessing risks and community resources and the effectiveness of parole officers in monitoring and supervising parolees. However, the Board needs to address the reasons for Ontario's combination of lower parole grant rates and higher rates of reoffending during parole.

Recommendation

To better protect society through the appropriate release of inmates under parole supervision and conditions, the Board should conduct a systemic review of board decision-making to determine why parole grant rates have significantly decreased since 1993/94 and why, since that same time, there has been a general increase in rates of reoffending during parole and take corrective action where appropriate.

Board Response

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The hallmark of the Board's independence is that, through the active participation of Board members drawn from communities across the province, it renders thorough and independent judgments on individual parole

applications based upon a disciplined and methodical assessment of the information placed in its care. The parole grant rate reflects the collective view of a group of well-informed members who assess risk in the context of their interpretation of public safety.

Nonetheless, the Board intends to conduct a review of the work of the federal and other provincial boards of parole to determine whether there are best practices that the Board could adopt for its own.

Reoffending rates are a matter of ongoing interest to the Board and will be monitored and analyzed to illuminate board policy. In-depth analysis of reoffending cases will be done immediately with the intent of generating policy, learning, accountability, and procedural remedies to ensure best practices in the Board's decision-making and review processes.

PERFORMANCE MEASURES

The Board has established in its Business Plan three key performance measures for 2001/02 as outlined in the following table.

Board Performance Measures, 2001/02

Goals/Outcomes	Measures	Targets/Standards	2001/02 Commitments
Reduction in reoffending by parolees	Percentage of parolees reoffending while on parole	Maintain rate of reoffending while on parole at 4.5% or less	Meet or exceed target
	Percentage of parolees suspended for serious reoffending	Maintain rate of suspension for serious reoffending at 2% or less	Meet or exceed target
	Percentage of parolees reoffending within two years of release	Maintain rate for parolees reoffending within two years of release at 25% or less	Meet or exceed target

Source of data: The Ontario Parole and Earned Release Board

We noted that the Board has set performance targets below those already achieved; thus, those targets are not conducive to improving performance. Specifically:

- The rate of parolees reoffending has never reached as high as the 4.5% established as the performance target for 2001/02. Achieving the 4.5% performance target would actually entail a worsening of performance, as it would be significantly above average historical rates.
- The performance target for serious reoffending is to maintain a rate of 2% or less. Historically, level I reoffending in Ontario has not been above 1.5%.

- Regarding the target of maintaining the rate of reoffending by parolees within two years of release at 25% or less, board statistics for the last five years show that Ontario's two-year reoffending rate has fluctuated from a low of 18% to a high of 23%.

Recommendation

To improve performance for reducing reoffending rates of parolees and thereby enhance public safety, the Board should set performance targets based on its own best results as well as those from other jurisdictions.

Board Response

The Board intends to study the performance measures used in other jurisdictions and will establish measures that it believes enhance public safety.

PAROLE DECISION-MAKING

Obtaining Relevant Information

The federal *Conditions and Conditional Release Act* requires "that parole boards take into consideration all available information that is relevant to a case, including the stated reasons and recommendations of the sentencing judge, any other information from the trial or the sentencing hearing, information and assessments provided by correctional authorities, and information obtained from victims and the offender."

To comply with the legislation, the Board has established various information requirements to assist members in determining whether the release of an inmate would present undue risk to the community. More stringent requirements are imposed for the release of level I offenders, including confirmation of inmates' post-release travel plans outlining how an offender intends to travel to a destination in the community from the correctional institution. Our audit, however, revealed that the required information was often not available for use in cases of level I offenders.

Specifically, in over half of the parole cases we examined, the Board did not obtain all relevant offender information before rendering parole and other release decisions. Of the cases we examined, 47% involved level I offenders who were granted parole. Of those level I cases, 79% were missing some of the key information, such as stated reasons and recommendations of the sentencing judge or the travel plans of the offender.

Our discussion with management indicated that stated reasons and recommendations of the sentencing judge did not constitute a core document relevant to a case. Consequently, police occurrence reports and Crown prosecutors' synopses were allowed to be used as the equivalent of the stated reasons and recommendations of the sentencing judge. However, occurrence reports and Crown prosecutors' synopses are not equivalent to the stated reasons

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In addition, board failure to review travel plans of level I offenders before releasing them imposes unnecessary risk on the community.

Recommendation

To provide a better basis for granting parole, the Board should receive and consider all information necessary to support its parole decisions, including the stated reasons and recommendations of the sentencing judge and offenders' travel plans in all cases involving higher-risk offenders.

Board Response

At the present time, judges do not always provide reasons for sentencing and their recommendations. If the courts are prepared to make stated reasons and recommendations available, the Board will consider them. It is the Board's intention to pursue an understanding with the Ministry of the Attorney General and the Ministry of Public Safety and Security to ensure that the stated reasons and recommendations of the trial judges are reliably and routinely forwarded to ministry officials, thus permitting them to be considered as a core document in the future.

The Board also asserts that the agreed statement of facts between the Crown and the defence that the judge also sees is an important and informative document that is available from the court. The Board intends to obtain this document from the Attorney General for inclusion as a core document for all parole cases.

Setting Parole Conditions

In accordance with the *Ministry of Correctional Services Act*, the Board has established standard conditions for all parolees to comply with, except where board members determine the deletion of any such conditions to be reasonable. These standard conditions, as set out in the *Ministry of Correctional Services Act*, Regulation 778, section 48, are as follows.

> It is a condition of every grant of parole, unless the Board orders otherwise, that the parolee shall,
>
> (a) remain within board jurisdiction;
>
> (b) keep the peace and be of good behaviour;

(c) obtain board or parole officer consent to change residence/employment;

(d) report as required to parole officer and local police; and

(e) refrain from associating with anyone engaged in criminal activity or, unless approved by a parole officer, anyone with a criminal record.

To aid parolees' reintegration and reduce risk to the community, board members may also add special conditions based on case-specific facts.

Our review indicated that board members had properly imposed standard conditions as required by board policy. However, the Board could not provide evidence of the reasons for not imposing specific conditions of parole recommended by parole officers or police (for example, no contact with the victim, no possession of firearms, or submission of passport). It is board practice to audiotape hearings but not the case discussions or the decision-making portions of its hearings.

Recommendation

To help ensure public safety, the Board should appropriately support its decisions not to impose special parole conditions recommended by police or parole officers.

Board Response

The Board will direct board members to indicate on the parole consideration form their knowledge of recommendations from police or parole officials, and, in instances where the Board does not intend to apply the recommendation(s), provide a rationale for that decision.

QUALITY ASSURANCE AND PERFORMANCE REVIEW

The Board has established a process for internal review of parole files and corresponding audiotapes of hearings to monitor the quality of parole decision-making and to determine if there are any training or policy issues that require attention. This process is designed to be proactive, and requires the examination of randomly selected parole-applicant cases on a quarterly basis to identify trends and issues within the parole system. Senior board members responsible for these reviews are required to maintain a record of the randomly selected parole files, including audiotapes.

In addition, all parole cases resulting in serious, level I incidents during parole are reviewed jointly with the Ministry. The Deputy Minister and the Chair of the Board can also request special investigations.

We noted that internal reviews were performed for all cases involving level I reoffending in 2001/02. However, we also noted significant non-compliance with the requirement for the and recommendations of the sentencing judge because they are essentially evidence and arguments used to convict an offender whereas the stated reasons and recommendations of the sentencing judge have taken all objective evidence and circumstances into consideration. The use of only occurrence reports and prosecutors' synopses may reinforce the perception that sources of information used by the Board are biased.

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> It is a condition of every grant of parole, unless the Board orders otherwise, that the parolee shall,
>
> (a) remain within board jurisdiction;
>
> (b) keep the peace and be of good behaviour;

(c) obtain board or parole officer consent to change residence/employment;

(d) report as required to parole officer and local police: and

(e) refrain from associating with anyone engaged in criminal activity or, unless approved by a parole officer, anyone with a criminal record.

To aid parolees' reintegration and reduce risk to the community, board members may also add special conditions based on case-specific facts.

Our review indicated that board members had properly imposed standard conditions as required by board policy. However, the Board could not provide evidence of the reasons for not imposing specific conditions of parole recommended by parole officers or police (for example, no contact with the victim, no possession of firearms, or submission of passport). It is board practice to audiotape hearings but not the case discussions or the decision-making portions of its hearings.

Recommendation

To help ensure public safety, the Board should appropriately support its decisions not to impose special parole conditions recommended by police or parole officers.

Board Response

The Board will direct board members to indicate on the parole consideration form their knowledge of recommendations from police or parole officials, and, in instances where the Board does not intend to apply the recommendation(s), provide a rationale for that decision.

QUALITY ASSURANCE AND PERFORMANCE REVIEW

The Board has established a process for internal review of parole files and corresponding audiotapes of hearings to monitor the quality of parole decision-making and to determine if there are any training or policy issues that require attention. This process is designed to be proactive, and requires the examination of randomly selected parole-applicant cases on a quarterly basis to identify trends and issues within the parole system. Senior board members responsible for these reviews are required to maintain a record of the randomly selected parole files, including audiotapes.

In addition, all parole cases resulting in serious, level I incidents during parole are reviewed jointly with the Ministry. The Deputy Minister and the Chair of the Board can also request special investigations.

We noted that internal reviews were performed for all cases involving level I reoffending in 2001/02. However, we also noted significant non-compliance with the requirement for the quarterly random file reviews. Specifically, of the four regions, only one was performing the reviews. Another region had started the review process in October 2001.

In cases where board reviews were done, the results indicated weaknesses or problems in the following areas:

- poor interviewing skills;
- inappropriate setting of special conditions of parole; and
- inadequate consideration of factors for and against parole.

However, despite having identified problems, the results of reviews were not used to take action to improve the performances of board members. For example, additional training, where required, was not provided to enhance members' effectiveness.

Recommendation

To improve the quality of its members' decision-making and overall board performance, the Board should systematically monitor the parole decision-making process and take corrective action, including the provision of additional training, where necessary.

Board Response

The Board endorses this recommendation. The Board is conducting a thorough review of the present board decision-making processes to provide a reliable, rigorous, and transparent regime for random reviews that both the senior members and the corporate office can employ to measure the work of panels.

Furthermore, the Board is concurrently examining processes for completing internal reviews in cases where a reoffence has occurred. This work will form the basis for reviews of our present policies, procedures, and training programs.

SELECTION AND APPOINTMENT OF BOARD MEMBERS

According to the *Corrections and Conditional Release Act*, to ensure that legislative criteria is properly applied, parole boards should "adopt and be guided by appropriate policies" and provide their members "with the training necessary to implement those policies."

To comply with that legislative requirement, the Board provides a mandatory basic training program for all new members consisting of several three-day courses within the first year of appointment. Subsequent seminars and workshops are held periodically in conjunction with regional board meetings. Attendance by members at special training and conferences is encouraged but not required.

Our review indicated that board members were being provided with proper initial orientation and basic training to fulfill their responsibilities. However, basic training is effective only when members understand the concepts of parole and have the appropriate knowledge, abilities, skills, and commitment to excellence in this area. In that regard, we were unable to determine whether the current appointment process was selecting the most suitable members.

Board members are appointed by the Public Appointments Secretariat of Management Board Secretariat. Currently, the Board has little influence in the selection of its new members. Selection criteria for members of the Ontario Board are similar to those for the National Parole Board. However, unlike the National Parole Board, the Ontario Board is not involved in the initial screening of applicants, and there is no formal process for the Board to provide input regarding the abilities, skills, commitments, and suitability of applicants. We noted that, currently, the process for selecting candidates for the Ontario Board does not include input from board members whereas the selection process for membership to the National Parole Board involves a selection committee that includes both board and external representatives.

Recommendation

To ensure that the most suitable candidates are selected and appointed as board members, the Board should work with the Public Appointments Secretariat of Management Board Secretariat to establish a more formal process for assessing the abilities, skills, commitments, and suitability of applicants for board membership.

Board Response

Work has already commenced between the Chair of the Board and key government officials to produce a thorough, formal, and rigorous process for identifying, selecting, training, and assigning board members, as well as a better process for assessing the performance of board members and, where necessary, providing remedial counselling or training.

Recommendations for the candidate's suitability to serve on the Board will then be made to the Public Appointments Secretariat of Management Board Secretariat.

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CASE-RELATED DECISIONS

In addition to making decisions granting or denying parole, the Board also makes case-related decisions, such as the approval of parolees' changes in employment or residence, the revocation of parole, and the authorization of warrants. A full-time member generally makes these decisions at the regional offices.

Parolees are supervised by parole officers in the community. When a parole condition is breached, parole officers report to the Board for further direction. The Board may revoke parole as a result of a breach of condition or a new offence.

Our review indicated that the Board was timely in discharging its responsibilities and taking appropriate actions. More specifically, we noted the following.

- The Board ensured that it received reports on the progress of parolees from probation and parole officers and reviewed these reports on a timely basis.
- When parole conditions set by the Board were subsequently found to be unsuitable for a particular parolee, those conditions were modified or changed to ensure public safety and aid the parolee's rehabilitation efforts.
- Revocations and warrants were issued on a timely basis when there were breaches of parole conditions that presented an undue risk to community safety.

MINISTRY OF TOURISM AND RECREATION

3.10–Tourism Program

BACKGROUND

The Tourism Program of the Ministry of Tourism and Recreation is responsible for developing and promoting Ontario's tourism industry. This industry includes a number of businesses that provide services like accommodation, food, attractions, transportation, retail opportunities, and travel assistance. The Ministry estimates that these businesses employ approximately 500,000 people and that the industry is the province's largest employer of young and seasonal workers. Annually, tourism generates an estimated $17 billion for the Ontario economy and $2.5 billion in provincial tax revenue.

The objectives of the Tourism Program are to promote tourism; stimulate employment; support the use of parks, tourist facilities, and attractions in Ontario; and encourage improvement in the standards of accommodations, facilities, and services offered to travellers. The role of the Ontario Tourism Marketing Partnership Corporation (Corporation)—a ministry agency that was established by regulation under the *Development Corporations Act* and began operating in 1999—is to market Ontario as a tourist destination by developing and implementing tourism advertising and marketing plans and enhancing partnerships with the tourism industry.

The *Tourism Act* and the *Ministry of Tourism and Recreation Act* provide the legislative authority for the operation of the Tourism Program. The Ministry operates 18 tourist information centres and is responsible for a total of nine tourism agencies and attractions. The Ministry directly operates the tourism attractions Huronia Historical Parks and Old Fort William. The tourism agencies, in addition to the Corporation, are governed by their own legislation and generate revenue to pay for the majority of their own expenses. These agencies are: Ontario Place, Metropolitan Toronto Convention Centre, Ottawa Congress Centre, Niagara Parks, St. Clair Parks, and St. Lawrence Parks.

For the 2001/02 fiscal year, tourism operating expenditures totalled $83 million, of which $52 million was spent by the Corporation and $11 million was provided to the other tourism agencies.

AUDIT OBJECTIVES AND SCOPE

The objectives of our audit of the Tourism Program were to assess whether the Ministry and the Ontario Tourism Marketing Partnership Corporation had adequate procedures in place to:

- measure and report on the effectiveness of the program in promoting tourism in Ontario;
- ensure compliance with legislation as well as government and ministry policies; and
- manage resources with due regard for economy and efficiency.

The criteria used to conclude on our audit objectives were discussed with and agreed to by senior management at the Ministry and at the Corporation and related to systems, policies, and procedures that the Ministry and the Corporation should have in place.

The scope of our audit, which was substantially completed in March 2002, included discussions with ministry and corporation staff, as well as the review and analysis of documentation maintained at their offices and the office of Management Board Secretariat's Shared Services Bureau, which is partly responsible for the acquisition of consulting services. In addition, our audit work related to tourism agencies and attractions, with the exception of the Corporation, was limited to ministry funding for the maintenance and repair of capital assets.

Our audit was conducted in accordance with the standards for assurance engagements, encompassing value for money and compliance, established by the Canadian Institute of Chartered Accountants, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

We also reviewed the relevant work performed by the Ministry's Internal Audit Services, which had undertaken a review of the Ministry's accountability framework with its agencies. This review was useful in reducing the extent of our audit work.

OVERALL AUDIT CONCLUSIONS

In the past decade, the Tourism Program has experienced numerous shifts in focus and organizational structure—as evidenced by its five different mission statements— as the responsibility for the Program has changed ministries six times. Another major change was the recent creation of the Ontario Tourism Marketing Partnership Corporation, which was delegated the responsibility for tourism marketing and advertising. In addition, at least 11 provincial ministries have a tourism objective as part of their mandates. Given the significance of tourism to the Ontario economy, the Ministry needs to take a more proactive leadership role in developing and implementing a long-term tourism strategy to help co-ordinate the many activities of public- and private-sector organizations that contribute to the promotion of tourism in Ontario.

Overall, we concluded that the Ministry and the Corporation did not have sufficient procedures to measure and report on the effectiveness of the Program in promoting tourism in Ontario. As well, in its annual business plan, the Ministry did not report the actual results achieved for any of its previously published performance measures. Also, after three years of operation, the Corporation had not submitted an annual report to the Legislature as required.

We also found that the Ministry and the Corporation did not have adequate procedures in place with respect to several aspects of their operations to ensure that the Program was delivered with due regard for economy and efficiency. Specifically, we noted the following:

- Tourism publications were not sufficiently comprehensive and were not published on a timely basis. For example, the Corporation's main tourism guide lists only 1,400 of an estimated 8,000 tourism facilities, and the 2001/02 winter events guide was not published until December 2001 and contained listings for events that had already taken place.
- There was no process in place to collect information on the tourism-related activities undertaken by other ministries and on the financial support provided by other ministries to the tourism industry. As a result, there was a risk of overlap and duplication of tourism-related programs and services offered by the government's ministries and agencies.
- Ontario's accommodation rating system and quality assurance standards for accommodations have not been adequately co-ordinated between ministries and the private sector. As a result, Ontario is one of only a few leading tourist destinations that does not have province-wide quality assurance standards or an accommodations rating system.
- Based on our examination of a sample of consulting contracts, we found that management consulting services were in many instances not justified by a business case, nor were related contracts signed on a timely basis. Moreover, several contracts were awarded directly to the vendor without competition, and other projects were split into separate contracts, thus allowing the Ministry to avoid open competition requirements.
- Both the Ministry and the Corporation maintain separate tourism information databases, and they do not have a process in place to periodically compare and update the information contained in these databases.

DETAILED AUDIT OBSERVATIONS

STRATEGIC PLANNING AND REPORTING

Ministry Vision and Strategic Planning

An organization's vision or mission statement identifies its overall purpose, provides general direction, and is important for developing specific plans for implementation. The development of a ministry vision statement assists in defining how services are to be provided and helps in the development of quality programs and services with greater efficiency and effectiveness.

Over the past 10 years, responsibility for the Tourism Program has changed ministries six times as a result of government reorganizations. Each reorganization has resulted in changes to the vision for tourism to reflect the focus of the new ministry. The following table illustrates some of the changes in the vision for tourism since 1993.

Tourism Program, 1993–2002

Ministry Responsible	Period	Vision or Mission Statement
Tourism and Recreation	To 1993	To "enhance the economic and social well-being of residents of Ontario by ensuring the development and maintenance of services, programs and facilities to support a wide range of tourism and recreation opportunities and choices in Ontario for residents and visitors."
Culture, Tourism and Recreation	1994–96	To "promote accessibility, economic advancement and development of culture, information management, tourism and recreation."
Economic Development, Trade and Tourism	1997–99	To help Ontario "achieve sustainable growth and jobs and to position Ontario as a leading North American destination for domestic and international travellers."
Tourism	1999–2000	To be "an innovative and dynamic tourism industry" that: "raises Ontario's profile around the world as a must-see tourist destination; encourages visitors to stay longer and return more often; shares the most accessible, up-to-date information with potential tourists; offers world-class tourism facilities and experiences for visitors; boasts the best trained, friendliest staff in the world; and generates jobs and develops the full economic potential of every region of the province."
Tourism, Culture and Recreation	2000–02	To be "a recognized national leader in job creation and investment through the support and development of the tourism…sector."
Tourism and Recreation	From April 2002	To be determined.

Source of data: Ministry of Tourism and Recreation

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As indicated in the table, the Tourism Program's vision or mission statements have changed with each successive ministry realignment. Normally, mission statements and their related goals do not change unless the circumstances under which they were created have changed. The Tourism Program has experienced significant changes in organization and focus over the past 10 years, and with each realignment, management structures within the Tourism Program have also been subject to numerous changes. In addition, in 1999, the responsibility for tourism marketing was transferred to a new agency, the Ontario Tourism Marketing Partnership Corporation.

In 1999, the then Minister of Tourism announced that, "our Ministry will co-ordinate the development of the province's first comprehensive tourism strategy." The anticipated strategy was developed but was never formally approved. In reviewing this document, we observed that it contained measurable short- and long-term objectives and an outline of specific activities to be completed. Given the complexity of the tourism industry and its significance to Ontario's economy, there is a need for an overall strategic plan that would provide program staff with clear direction that transcends organizational restructuring, outlines accountability for program responsibilities, and prioritizes the Program's many objectives.

Recommendation

To help strengthen accountability and provide clear direction to fulfill its vision, the Ministry should develop a strategic plan for the Tourism Program that has measurable short- and long-term objectives and an action plan with a defined accountability framework.

Ministry Response

The Ministry agrees with the recommendation and proposes to develop a renewed Tourism Strategic Plan that includes measurable short- and long-term objectives and a defined accountability framework.

Procedures to Measure and Report on Program Effectiveness

Management Board of Cabinet directives require that ministries publish a combined business plan and annual report that outlines plans for the following year and reports on performance from the previous year. The purpose of the government business planning process is to improve decision-making, support the development and delivery of high-quality programs, ensure outcomes are aligned with overall government priorities, and improve accountability for measuring and achieving results. Published business plans and annual reports are also intended to support openness and accountability to the public and the Legislature.

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We reviewed the Ministry's business planning process for the 2000/01 and 2001/02 fiscal years and noted that the Ministry outlined a number of performance measures, each having targets and commitments for its core businesses. Although some actual results were reported internally, the Ministry did not report on the results of any of its performance measures in its published business plans. Therefore, the intent of the business planning process to support openness and accountability to the public and the Legislature for the achievement of program objectives was not fulfilled.

We also noted that the Ministry's performance measures and related commitments were often high-level indicators of Ontario tourism trends. For instance, one of its 2001/02 commitments was to generate $500 million in total incremental tourist spending. This measure does not indicate the extent to which ministry activities increased tourism spending. Such high-level measures are affected by a variety of factors outside the Ministry's control, such as currency exchange rates, international events, and domestic economic conditions. Furthermore, local municipalities, private organizations, independent businesses, and several other provincial ministries also promote tourism in Ontario. With multiple organizations promoting different aspects of tourism, it is difficult to isolate the Ministry's contribution to achieving the stated goals of the Tourism Program. Performance measures that relate to the Program's activities needed to be developed to isolate the Ministry's contribution to the overall objective of promoting tourism.

The Ontario Tourism Marketing Partnership Corporation recognized the need to measure and report on the achievement of its objectives and established the Marketing Performance Assessment Committee in 1999. In July 2001, a performance report on the Corporation's operations was prepared for the committee. We observed that the Corporation had developed a number of performance measures. However, the Corporation needs to develop specific standards or expectations for many of these performance measures. For example, many measures are based on specific activities, such as the number of calls received or the number of publications distributed. Activity reporting without comparison to an established benchmark or expected outcome makes it difficult to determine whether the reported activity represents success or failure.

In addition, for the Corporation to be accountable for its expenditure of public funds, it is required to prepare an annual report on its affairs to be tabled in the Legislature. However, after three years of operation, the Corporation had still not prepared an annual report for the Legislature.

We observed that other jurisdictions had developed performance measures and were annually reporting on their achievements. They were also providing explanations as to why key measures were not met. For instance, in 2001, another Canadian province publicly released an annual report on tourism that contained a number of performance indicators including comparisons of targets with actual achievements, along with an analysis of achievements or reasons for not achieving each target.

Recommendation

To provide better accountability to the public and the Legislature for their use of public funds and to encourage a results-based operational focus:

- **the Ministry should develop performance measures over which it has a reasonable degree of influence, report on the actual achievement of these measures, and provide explanations for any significant deviation from the expected outcomes; and**
- **the Ontario Tourism Marketing Partnership Corporation should develop standards for its performance measures and prepare the required annual reports for submission to the Legislature.**

Ministry and Corporation Response

The Ministry agrees that some of its performance measures are out of its sphere of influence and will develop additional measures that are more directly influenced by ministry programs. Both commitments and results for these measures will be reported.

The Ontario Tourism Marketing Partnership Corporation supports the development of an effective method of measuring performance. The Corporation will report on its performance in its 2003/04 business plan. The Corporation will develop standards for its performance by end of fiscal 2002/03, by researching other jurisdictions of comparable mandates and budgets to establish benchmarks. The Corporation currently employs a return-on-investment model, which uses ad tracking to assess the effectiveness of its advertising and measures performance of this aspect of marketing. The Corporation is also building in performance tracking as part of the implementation of a new planning and accountability framework. We will implement these standards for the 2003/04 fiscal year and monitor them throughout the year to ensure they provide results-based information.

The Ministry will work with the Corporation to ensure that it prepares the required annual reports for the Minister's approval and submission to the Legislature.

Co-ordination of Tourism Initiatives

The Ministry and the Corporation are not the only promoters of tourism in the province: many other public and private organizations and businesses promote tourism in Ontario. For example, the Ministry indicated that there were at least 11 other provincial ministries that have a tourism objective in their mandates.

In the past there have been attempts to co-ordinate the various tourism-related activities administered and funded by different ministries and agencies. For instance, in 1997, an inter-ministerial committee comprising twelve ministries with a tourism mandate was

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At the time of our audit, the Ministry was using a wide range of approaches to co-ordinate tourism-related activities. For example, ministry staff attended meetings with many of the major tourism associations, and corporation personnel conducted province-wide "town hall" meetings to discuss marketing initiatives. Policy was co-ordinated through a number of formal and informal means with staff from other ministries and agencies. As well, the Ministry was regularly commenting on submissions that had a tourism component and were prepared by other ministries and agencies for government committees. However, the Ministry did not have adequate information on the tourism-related programs administered by other ministries and agencies or on the related funding provided to the tourism industry by these ministries and agencies.

The Ministry stated that most other provincial programs provide funding to specific industries or regions with tourism as a secondary objective. For example, the Ministry of Northern Development and Mines provides assistance to support northern communities, and the Ministry of Agriculture, Food and Rural Affairs provides assistance to rural areas. In fact, each of these ministries provide more direct financial assistance to the tourism industry than the Ministry of Tourism and Recreation. The Ministry therefore needs be aware of the financial support the tourism industry is receiving from other provincial ministries to prevent possible overlap and duplication.

Given the number of different approaches and programs supporting the tourism industry, there is a need for more proactive leadership in the co-ordination of tourism activities. For effective co-ordination, roles and responsibilities need to be well defined. The lack of clear responsibilities can lead to inefficiencies in program delivery. For example, in 1998, the Minister of Northern Development and Mines announced the creation of the Northern Ontario Tourism Marketing Association (Association) with the objective of developing tourism programs to market Northern Ontario. From the outset, the Corporation and the Association experienced difficulties co-ordinating their activities, and the intended integration of their marketing plans and customer information systems was never accomplished. The Ministry informed us that the Association is no longer in operation.

Given that the activities of various ministries and agencies can contribute to the Ministry's overall objective of promoting tourism, it is important for the Ministry to co-ordinate its activities with other government and industry programs to ensure that Ontario tourism is effectively marketed.

Recommendation

To help ensure that provincial funding in support of Ontario's tourism industry is used in an efficient and effective manner, the Ministry should:

- **minimize the risk of overlap and duplication between its programs and services and those of other ministries and agencies;**
- **develop a process to collect financial information on the support provided to the tourism industry by other ministries; and**
- **develop a strategy to assist in the co-ordination of all government activities that promote tourism in the province.**

Ministry Response

The Ministry recognizes the importance of minimizing the risk of overlap and duplication between its programs and those of other ministries. The new Tourism Strategic Plan will provide a focus for co-ordinating government efforts in support of tourism.

To support ongoing co-ordination, the Ministry will develop an annual survey in 2003/04 to collect information on the programs, services, and financial support provided to the tourism industry by other ministries.

Legislative Review and Tourism Licensing

The *Tourism Act* gives the Ministry the authority to license and regulate tourism and accommodation establishments. The Act outlines, for instance, how no advertising matter or sign connected with a tourist establishment that is subject to the provisions in the Act shall contain any inaccurate or misleading statements. The *Ministry of Tourism and Recreation Act* outlines the objectives of the Ministry and provides the authority to develop programs of financial assistance to further those objectives.

In 1996, the Ministry reviewed the *Tourism Act* and explored alternatives to the licensing of tourist establishments, and, in 1998, legislative amendments were proposed that would remove the province-wide requirements of the *Tourism Act* to license tourism establishments. These proposed amendments were considered to be an interim measure until the licensing of establishments that use Crown resources could be replaced by an industry self-managed certification process. The legislative changes were intended to better reflect the province's perceived role in tourism, but the proposed changes were not made.

The Ministry is attempting to move away from its direct regulatory role citing a lack of resources and expertise to properly administer and enforce the provisions of the *Tourism Act*. The Ministry also contends that revisions to the *Ministry of Tourism and Recreation Act* also need to be made to reflect the current role of the Tourism Program.

As part of the 1998 legislative review, the Regulation to the *Tourism Act* was amended, exempting approximately 2,500 tourist establishments that do not use Crown lands from the requirements of the Act, including the need to obtain a licence. The Ministry would continue to license the approximately 1,400 tourist establishments that use Crown lands. In having made these regulatory amendments, the Ministry may have created inequities created to analyze policy issues related to tourism. During its two years of operation, the committee produced a draft "Tourism Action Plan" for submission to Cabinet but the plan was never submitted.

At the time of our audit, the Ministry was using a wide range of approaches to co-ordinate tourism-related activities. For example, ministry staff attended meetings with many of the major tourism associations, and corporation personnel conducted province-wide "town hall" meetings to discuss marketing initiatives. Policy was co-ordinated through a number of formal and informal means with staff from other ministries and agencies. As well, the Ministry was regularly commenting on submissions that had a tourism component and were prepared by other ministries and agencies for government committees. However, the Ministry did not have adequate information on the tourism-related programs administered by other ministries and agencies or on the related funding provided to the tourism industry by these ministries and agencies.

The Ministry stated that most other provincial programs provide funding to specific industries or regions with tourism as a secondary objective. For example, the Ministry of Northern Development and Mines provides assistance to support northern communities, and the Ministry of Agriculture, Food and Rural Affairs provides assistance to rural areas. In fact, each of these ministries provide more direct financial assistance to the tourism industry than the Ministry of Tourism and Recreation. The Ministry therefore needs be aware of the financial support the tourism industry is receiving from other provincial ministries to prevent possible overlap and duplication.

Given the number of different approaches and programs supporting the tourism industry, there is a need for more proactive leadership in the co-ordination of tourism activities. For effective co-ordination, roles and responsibilities need to be well defined. The lack of clear responsibilities can lead to inefficiencies in program delivery. For example, in 1998, the Minister of Northern Development and Mines announced the creation of the Northern Ontario Tourism Marketing Association (Association) with the objective of developing tourism programs to market Northern Ontario. From the outset, the Corporation and the Association experienced difficulties co-ordinating their activities, and the intended integration of their marketing plans and customer information systems was never accomplished. The Ministry informed us that the Association is no longer in operation.

Given that the activities of various ministries and agencies can contribute to the Ministry's overall objective of promoting tourism, it is important for the Ministry to co-ordinate its activities with other government and industry programs to ensure that Ontario tourism is effectively marketed.

Recommendation

To help ensure that provincial funding in support of Ontario's tourism industry is used in an efficient and effective manner, the Ministry should:

- **minimize the risk of overlap and duplication between its programs and services and those of other ministries and agencies;**
- **develop a process to collect financial information on the support provided to the tourism industry by other ministries; and**
- **develop a strategy to assist in the co-ordination of all government activities that promote tourism in the province.**

Ministry Response

The Ministry recognizes the importance of minimizing the risk of overlap and duplication between its programs and those of other ministries. The new Tourism Strategic Plan will provide a focus for co-ordinating government efforts in support of tourism.

To support ongoing co-ordination, the Ministry will develop an annual survey in 2003/04 to collect information on the programs, services, and financial support provided to the tourism industry by other ministries.

Legislative Review and Tourism Licensing

The *Tourism Act* gives the Ministry the authority to license and regulate tourism and accommodation establishments. The Act outlines, for instance, how no advertising matter or sign connected with a tourist establishment that is subject to the provisions in the Act shall contain any inaccurate or misleading statements. The *Ministry of Tourism and Recreation Act* outlines the objectives of the Ministry and provides the authority to develop programs of financial assistance to further those objectives.

In 1996, the Ministry reviewed the *Tourism Act* and explored alternatives to the licensing of tourist establishments, and, in 1998, legislative amendments were proposed that would remove the province-wide requirements of the *Tourism Act* to license tourism establishments. These proposed amendments were considered to be an interim measure until the licensing of establishments that use Crown resources could be replaced by an industry self-managed certification process. The legislative changes were intended to better reflect the province's perceived role in tourism, but the proposed changes were not made.

The Ministry is attempting to move away from its direct regulatory role citing a lack of resources and expertise to properly administer and enforce the provisions of the *Tourism Act*. The Ministry also contends that revisions to the *Ministry of Tourism and Recreation Act* also need to be made to reflect the current role of the Tourism Program.

As part of the 1998 legislative review, the Regulation to the *Tourism Act* was amended, exempting approximately 2,500 tourist establishments that do not use Crown lands from the requirements of the Act, including the need to obtain a licence. The Ministry would continue to license the approximately 1,400 tourist establishments that use Crown lands. In having made these regulatory amendments, the Ministry may have created inequities between the tourist establishments that use Crown lands and those that do not in that only establishments using Crown lands must obtain a licence and comply with the many requirements of the *Tourism Act*.

In the 2001/02 fiscal year, the Ministry planned to conduct another review of legislation, which would include consultation with the industry. This review is expected to provide a timely and appropriate context for examining solutions proposed for tourism licensing. As of March 2002, this review was still in progress.

In addition we noted the following:

- The Ministry informed us that approximately 290 tourist operators using Crown lands had not renewed their licences for the 2001/02 fiscal year. While the Ministry did not know why these establishments had not renewed their licences, ministry staff believed that most of the establishments were still operating.
- The Ministry does not conduct any routine inspections of tourist establishments. The licensed establishments are required to provide for the health and safety of their guests, and facilities must comply with other legislation such as the *Building Code Act, 1992*, the *Health Protection and Promotion Act*, and the *Environmental Protection Act*. We were informed that the operator is relied on, as a condition of the licence, to ensure compliance with the regulatory requirements of the *Tourism Act*. The Ministry did not have a process in place to periodically ensure compliance with the legislation.

Recommendation

To clarify the Tourism Program's responsibilities and ensure compliance with relevant legislation, the Ministry should:

- **consider reviewing all other tourism legislation during its current review of the *Tourism Act*; and**
- **follow up on establishments that have not renewed their licence and review procedures to ensure that tourist establishments comply with the legislation currently in place.**

Ministry Response

The Ministry appreciates the value of a comprehensive approach to legislation affecting tourism but notes there are 92 provincial statutes and regulations that affect tourism in Ontario with most not exclusively related to tourism or administered by the Ministry. The Ministry will need to weigh the anticipated costs and benefits of conducting a review of those statutes and regulations to determine its feasibility.

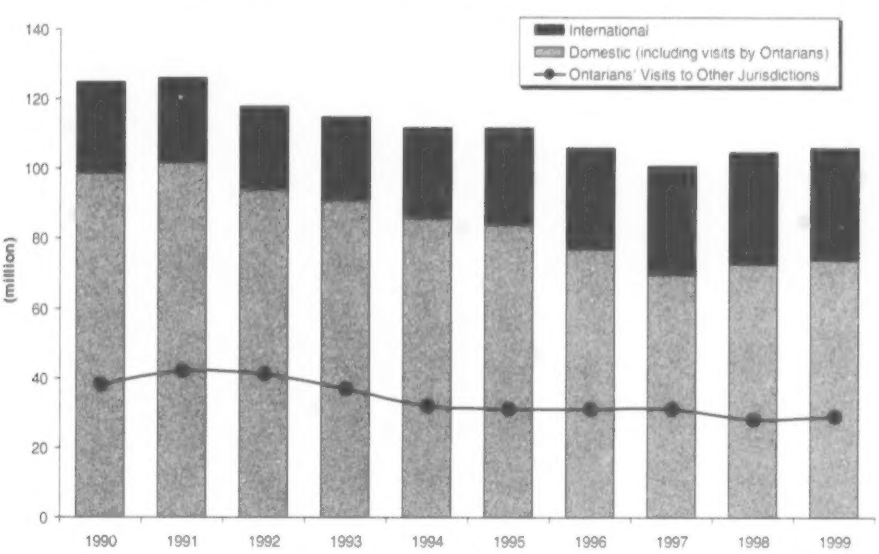
To deal with those establishments that fail to renew their licences, the Ministry will review the licensing function in 2003/04 with a view to removing impediments that deter tourism operators from complying with the legislation and to increasing the incentive to do so. The Ministry will work with its own

field service offices and those of the Ministry of Northern Development and Mines to ensure there is a timely and effective follow-up with delinquent tourism operators.

TOURISM PROMOTION

Ministry statistics indicate that the number of tourists visiting Ontario has gradually declined over the last 10 years. A tourist is a person who travels for leisure, business, or other purposes at least 40 kilometres outside their usual environment, either overnight or for same-day activities. As illustrated in the following bar graph, the decline results from a 25% decrease in the number of domestic tourist visits (including those by Ontario residents), which was partially offset by an increase in international tourist visits. In comparison, the number of visits by Ontario residents to other jurisdictions was also reported to have declined.

Number of Tourist Visits to and from Ontario, 1990–99



Source of data: Ministry of Tourism and Recreation

The domestic statistics for 2000 and 2001 and the international statistics for 2000 indicate further declines in the number of tourist visits. In spite of the overall decline in the number of visitors over the last 10 years, the Ministry estimates that expenditures made by tourists in Ontario have increased marginally.

The overall decline in the number of people vacationing in Ontario is attributed to a number of factors—such as recessions and currency fluctuations—that are outside the direct control of the Ministry and the tourism industry. However, innovative marketing and advertising can attract both domestic and international visitors to the province and encourage Ontario residents to vacation in Ontario.

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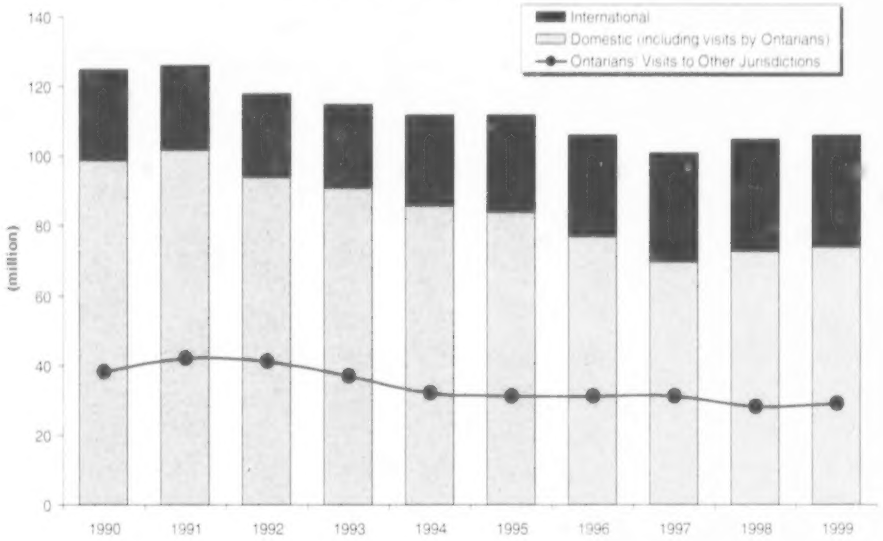

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Marketing Plans

The Corporation is responsible for tourism marketing. Its annual tourism marketing plan provides a high-level assessment of the products and services offered by the tourism industry in Ontario, as well as the geographic areas that the Corporation will target in its marketing activities. The plan also outlines the resources available to the Corporation and provides general direction to its management for decision-making relating to marketing and the use of resources.

We reviewed the Corporation's 2001/02 and 2002/03 marketing plans and the supporting documentation and analyses. We observed that the published marketing plan, which is available to the public and industry stakeholders, provided an indication of the Corporation's marketing objectives for the year, including the industry products and services it intended to promote. However, we observed that documentation and analysis used to support the marketing decisions needed to be improved. Specifically, we noted that there was a lack of documentation to support the decisions on the markets to be included or excluded from the annual marketing plan. We also found no formal analysis of the viability of potential demographic or geographic markets to target for advertising campaigns.

In reviewing other jurisdictions, we noted that the federal agency responsible for tourism marketing for Canada had developed a market portfolio analyses process. The process was developed to assist in decision-making by providing a method to objectively evaluate and prioritize the tourism potential and performance of the target markets fairly and consistently. The process complements subjective market intelligence and feedback from the industry. The federal process indicated that a number of countries had a high potential for good marketing results, including countries not being targeted by the Corporation, such as Mexico, Taiwan, Hong Kong, South Korea, and Brazil.

Recommendation

To maximize the impact of its marketing process for attracting visitors to Ontario, the Ontario Tourism Marketing Partnership Corporation should:

- **require the selection of potential markets be supported by documented analysis; and**
- **review the applicability to Ontario of marketing analysis research used in other jurisdictions.**

Corporation Response

The Corporation's annual marketing strategy will include a market portfolio analysis (MPA) process, based on best practices found in other jurisdictions, including the Canadian Tourism Commission (CTC).

In developing its marketing strategy for 2003/04, the Corporation has reviewed the CTC's MPA model, and made use of documented analysis of consumer data

on U.S. and domestic markets to guide its marketing direction in those markets. It has also used information on overseas markets based on recent reviews involving interviews with industry sources.

The Corporation will continue to improve on documenting its evidence-based decision-making and refine its marketing plan development process in the next two years.

Advertising Program

To promote Ontario as a tourist destination, the Corporation, in association with the government's Advertising Review Board, engages advertising agencies to assist in the creation and placement of advertisements in a variety of media, including television, radio, and print materials. To share the cost of its advertising campaigns, the Corporation enters into arrangements with tourism industry partners, such as hotel chains and local tourism associations. The Advertising Review Board and the Corporation have contracted with three advertising agencies to provide advertising services. For the 2001/02 fiscal year, the Corporation spent approximately $30 million on tourism advertising campaigns, which included special one-time funding of $12 million for an enhanced marketing strategy to promote Ontario as a travel destination, and the Corporation recovered $6 million from its industry partners.

We reviewed the policies and procedures in place to monitor the approval and payment of advertising agencies. We observed a number of financial control weaknesses, some of which we reported in 1999 as part of a review of financial controls at the former Ministry of Economic Development, Trade and Tourism. Specifically, in this audit we observed the following:

- Agency billings were not checked to ensure that the advertising had actually been completed in the manner and volume agreed to. In addition, invoices from two of the agencies did not specify what part of the total billing was for commissions. Consequently, the accuracy and completeness of advertising payments could not be verified by corporation staff. Contracts with two of the advertising agencies allow for the auditing of the agency's billings up to four years after the expiration of the contract. However, these two advertising agencies' billings had never been audited. The current contracts with the three advertising agencies expired between January and November 2001 and have been extended by letters of agreement. We were informed that, subsequent to our audit and based on a competitive process, the Corporation negotiated new advertising agency agreements.
- The contracts with the advertising agencies require that performance reviews of the agencies' delivery of service be carried out annually to ensure the execution of programs in accordance with stated objective and policies. However, the Corporation has not formally reviewed the performance of its advertising agencies.

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Recommendation

To help ensure the economic, efficient, and effective delivery of its advertising campaigns, the Ontario Tourism Marketing Partnership Corporation should:

- **conduct or arrange for the auditing of the billings of the advertising agencies it contracts with to ensure that planned advertisements have been placed and agency billings are accurate; and**
- **complete, as required, the annual performance reviews of the advertising agencies.**

Corporation Response

The Corporation previously used the services of three agencies in addition to the agency of record for the government of Ontario—one for domestic advertising, one for international advertising, and one for publications. As of August 2002, the Corporation has consolidated its use of agencies to two—one for both domestic and international advertising and one for publications.

The Corporation will engage the agency of record to be responsible for purchasing all media, both domestic and international. The Corporation's new advertising agency will only undertake media planning and production. The agency of record will be responsible for all other documentation and invoices. The Corporation is also in discussions with the Advertising Review Board's executive director on the issue of periodic auditing. The Corporation will monitor this process and make recommendations to the Advertising Review Board as appropriate.

Training will be provided to the Corporation's management on agency management, including contents and terms of the agency contract.

A formal agency performance review will be completed annually. Informal review sessions will take place periodically.

Consumer Publications

An integral part of the Corporation's tourism marketing process is the production and distribution of printed promotional and informational materials. These publications are designed to attract travellers to Ontario and help encourage travellers to stay longer and spend more. Publications also provide tourist operators with a cost-effective medium to promote their establishments. The revenue generated through the sale of advertisements within publications helps reduce the Corporation's production cost. In the 2001/02 fiscal year, the Corporation spent approximately $3 million to create, publish, and distribute about 10 publications, and the Corporation recovered $1 million from the advertisements placed by tourist operators.

We reviewed the Corporation's policies and procedures related to the production and distribution of publications and observed the following:

- Tourists had expressed concerns to the Ministry about the Corporation's publications, specifically that they were not sufficiently comprehensive and were not easy to use in planning a trip. For example, we observed that the Corporation's main tourism guide contains listings for about 1,400 facilities that had paid a fee to be included in the publication; however, more than 8,000 facilities are recorded in its database. In comparison, tourist publications in other jurisdictions, such as British Columbia and Nova Scotia, contain detailed information on large numbers of their provinces' facilities, making these guides far more complete than those currently available in Ontario.
- Many of the Corporation's publications were not available on a timely basis. In some cases, they were not available prior to the start of the season for which they were intended to be used. For example, the *2001/02 Winter Events Guide* was not available to the public until early December 2001 and contained listings of events that had already taken place. This publication would not be helpful for tourists wanting to preplan vacation activities. In comparison, other provinces generally had seasonal publications available to the public as much as four months prior to the start of the related season.
- The Corporation did not offer tourist operators the option of placing advertisements in its French-language publications. Therefore, none of the French-language publications produced by the Corporation contained partnership advertisements. In contrast, the Corporation's English-language publications generate revenues that represent one third of the production cost. We noted that Nova Scotia had been successful in arranging for a considerable amount of advertising in its French-language tour guide.
- The Corporation supplies publications to regional travel associations and municipalities in quantities that are based on the amounts supplied in the previous year rather than on an objective assessment of demand. In addition, we noted that the Corporation's publications inventory contained a significant quantity of old products that are no longer useful to tourists and for which it continues to pay storage costs.

Recommendation

To help ensure that its tourism publications are produced and distributed in an economical and effective manner and that they effectively meet the needs of tourists, the Ontario Tourism Marketing Corporation should:

- **review the completeness of the tourism information contained in its publications, and release publications on a more timely basis;**
- **assess the potential for obtaining advertising revenue for its French-language publications; and**
- **review its distribution and inventory policies.**

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Corporation Response

The Corporation has begun a comprehensive review of its consumer publications. The review will be completed in March 2003 and will look at the role of both electronic and print publications in consumer decision-making, timing of trip planning, and the type of information that is most in demand. Consumer market research will be conducted to determine how people are using the publications. Secondary research will involve a competitive review of other tourism jurisdictions relative to consumer publications.

The Corporation will assess the potential for advertising revenue from its French-language publications. If there is good potential, appropriate industry partners will be approached for advertising participation in the 2003 publications.

In conjunction with the publications review currently underway, the Corporation will review its inventory and distribution policies and revise them as appropriate.

Festival and Event Grants

The Corporation administers two grant programs: the Tourism Event Marketing Partnership (TEMP) and the Industry Partnership Proposal (IPP). These grant programs provide financial assistance to eligible organizations for their marketing and advertising initiatives. The programs' primary objective is to encourage and increase tourism in the province. The amount of the grants they provide is based on the percentage of an organization's eligible project costs. The maximum grant amounts per eligible recipient are $50,000 for the TEMP and $60,000 for the IPP. During the 2001/02 fiscal year, approximately 100 eligible recipients received grants totalling $2.7 million.

In 2001, the Ministry engaged a consultant to compare the province's funding and other initiatives in support of festivals and events with those of other jurisdictions. The consultant made a number of recommendations, including the need to streamline application forms and develop a province-wide festival and events strategy.

We reviewed the Corporation's administration of its grant programs and found that grants were properly reviewed and approved according to program eligibility and funding criteria. However, improvements were required as follows:

- One of the key goals of the TEMP program is to develop off-season events. Applications for festivals and events that take place in the spring and winter (the off-seasons) should be given priority. The Corporation does not set a specific deadline date for grant applications but requires applications be submitted four months prior to the date of the event. We reviewed the 2001/02 approved applications and found that six months into the fiscal year (September 2001) the TEMP's budget had been fully committed, primarily to summer and fall events. As a result, no budgeted funding was available for winter and spring events that had not, as of September 2001, submitted their applications for review and approval. We were informed that the Corporation had to allocate additional funding to support off-season events.

- One of the Corporation's key performance measures for the grants programs is the value of contributions, both financial and in-kind, that festival and event organizers raise from other sponsors. The information on the value of sponsorship revenue is a measure used by the Corporation to demonstrate its effectiveness in developing partnerships.

  We noted that the information to support this performance measure needed to be more closely monitored. For instance, when applying for a grant, festival and event organizers are required to submit letters from each of their sponsors indicating what funds they have committed; however, we observed that only half of the applications sampled submitted sponsor letters. As well, the Corporation had no procedure for periodically verifying the accuracy of the sponsorship contributions and therefore could not be assured that the information it was using to measure its performance was accurate.

- After festivals and events have taken place, grant recipients are required to submit a post-project report to the Corporation that details how the grant was spent and outlines the results obtained. However, the Corporation had not received the required reports from 30% of the recipients. The Corporation also did not assess whether the grant programs met the objective of increasing tourism in the province.

Recommendation

To ensure that the financial assistance provided to festivals and events through its two grant programs achieves the overall objective of encouraging and increasing tourism in the province, the Ontario Tourism Marketing Partnership Corporation should:

- **develop a formal, province-wide strategy for providing financial support to eligible festival and event operators;**
- **more effectively monitor grant approvals to help achieve the goal of developing off-season events;**
- **develop procedures to periodically verify the sponsorship commitments that are generated through festival and event organizers; and**
- **ensure that grant recipients submit the required post-project reports and review all reports received to assess the success of the grant programs.**

Ministry and Corporation Response

A study commissioned by the Ministry identified festivals and events as key players in reflecting community culture, history, and traditions, thereby having tremendous value in drawing national and international visitors and reaping the economic benefits.

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In 2001, the Ministry engaged a consultant to compare the province's funding and other initiatives in support of festivals and events with those of other jurisdictions. The consultant made a number of recommendations, including the need to streamline application forms and develop a province-wide festival and events strategy.

We reviewed the Corporation's administration of its grant programs and found that grants were properly reviewed and approved according to program eligibility and funding criteria. However, improvements were required as follows:

- One of the key goals of the TEMP program is to develop off-season events. Applications for festivals and events that take place in the spring and winter (the off-seasons) should be given priority. The Corporation does not set a specific deadline date for grant applications but requires applications be submitted four months prior to the date of the event. We reviewed the 2001/02 approved applications and found that six months into the fiscal year (September 2001) the TEMP's budget had been fully committed, primarily to summer and fall events. As a result, no budgeted funding was available for winter and spring events that had not, as of September 2001, submitted their applications for review and approval. We were informed that the Corporation had to allocate additional funding to support off-season events.

- One of the Corporation's key performance measures for the grants programs is the value of contributions, both financial and in-kind, that festival and event organizers raise from other sponsors. The information on the value of sponsorship revenue is a measure used by the Corporation to demonstrate its effectiveness in developing partnerships.

  We noted that the information to support this performance measure needed to be more closely monitored. For instance, when applying for a grant, festival and event organizers are required to submit letters from each of their sponsors indicating what funds they have committed; however, we observed that only half of the applications sampled submitted sponsor letters. As well, the Corporation had no procedure for periodically verifying the accuracy of the sponsorship contributions and therefore could not be assured that the information it was using to measure its performance was accurate.

- After festivals and events have taken place, grant recipients are required to submit a post-project report to the Corporation that details how the grant was spent and outlines the results obtained. However, the Corporation had not received the required reports from 30% of the recipients. The Corporation also did not assess whether the grant programs met the objective of increasing tourism in the province.

Recommendation

To ensure that the financial assistance provided to festivals and events through its two grant programs achieves the overall objective of encouraging and increasing tourism in the province, the Ontario Tourism Marketing Partnership Corporation should:

- **develop a formal, province-wide strategy for providing financial support to eligible festival and event operators;**
- **more effectively monitor grant approvals to help achieve the goal of developing off-season events;**
- **develop procedures to periodically verify the sponsorship commitments that are generated through festival and event organizers; and**
- **ensure that grant recipients submit the required post-project reports and review all reports received to assess the success of the grant programs.**

Ministry and Corporation Response

A study commissioned by the Ministry identified festivals and events as key players in reflecting community culture, history, and traditions, thereby having tremendous value in drawing national and international visitors and reaping the economic benefits.

The Ministry, in partnership with the industry, will publicly release the study's recommendations in November of 2002.

The Corporation has now developed and implemented major Ontario event funding criteria for large, world-class events and festivals in Ontario as part of its Tourism Event Marketing Partnership Program.

The Corporation has recently negotiated an agreement with ministry field services staff to identify off-season and winter-season events for program support. Funds have been allocated to support events during these seasons.

To support its oversight of sponsorship revenues, the Corporation will work with the Ministry's Internal Audit Services to develop and implement procedures that will periodically verify these revenues.

The Corporation will continue to require post-project reports from event organizers and ensure future funding is contingent on receiving such reports. For events not requesting additional funding, the Corporation will monitor to ensure the event was implemented as outlined in the proposal.

The Corporation will develop a formal evaluation framework in which all post project reports will be analyzed to assess program success and will use this information to improve program decisions in the future.

TOURISM OPERATIONS AND SERVICES

Travel Information Centres

The Ministry operates eleven year-round and seven seasonal travel information centres with annual expenditures of approximately $4.2 million. In addition to welcoming tourists and providing travellers with information on Ontario, the objectives of the centres are to encourage visitors to stay longer, return more often, and spend more money in Ontario. For the 2001 calendar year, the travel information centres received approximately 2.3 million visitors. This represents a decline of almost 25% in the number of visitors using a travel information centre since 1998.

In 1997, the Ministry surveyed visitors to determine their opinion on the effectiveness of the travel information centres. The survey indicated that, as a result of the information obtained at a travel information centre: approximately 13% of the visitors extended their stay by an average of 1.7 days; 64% of the visitors intended to return to Ontario; and during the survey period (July to September 1997) tourists spent an estimated $12 million more in the province.

In 1998, the Ministry's Internal Audit Services reported on the operations of the travel information centres. In their report, Internal Audit Services concluded that the Ministry's survey was an adequate measurement tool and recommended that the survey be conducted every two years. The Ministry agreed they would do so provided sufficient funding was available.

The Ministry has not conducted a survey of visitors to travel information centres since the 1997 survey and does not have other performance measures in place to measure the effectiveness of the centres in meeting their objectives. In 2001/02, the Ministry had planned to conduct a similar survey to obtain a better understanding of customer needs and to identify actions required to meet visitors' expectations and increase the number of visitors to Ontario. However, at the time of our audit, the planned survey had not been undertaken.

Recommendation

To help assess whether provincial travel information centres are effective in meeting their objectives, the Ministry should develop procedures to periodically evaluate whether the centres continue to encourage visitors to stay longer, return more often, and spend more money in Ontario.

Ministry Response

The Ministry agrees that a thorough evaluation of the travel information centres to ensure objectives are being met is important for the future effectiveness of operations.

The Ministry will continue to monitor customer satisfaction and the development of information services throughout travel centres. We will continue to monitor the effectiveness of the travel centres and their ability to deliver travel information services that entice visitors to stay longer, return more often, and spend more money in Ontario.

The Ministry will also review opportunities that will enhance the centres' ability to create a positive image of Ontario, through the development of a business case that provides a long-range plan to guide the future direction of its travel information centres and meets the ever-changing visitor expectations for easily accessible information and travel choices.

Maintenance of Agency and Attraction Assets

The Ministry's tourism agencies and attractions are responsible for maintaining a broad range of assets, including 150 historic heritage buildings. Heritage assets are usually considered irreplaceable and are intended to be preserved in trust for future generations. Most of the tourism agencies' and attractions' assets have had no significant capital investments for repair and maintenance in recent years. Tourism agencies and attractions require significant capital investment to remain competitive and attract repeat visitors.

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In its 2000/01 capital plan, the Ministry indicated that without multi-year capital investments for rehabilitation and improvement, some of the sites at its attractions might need to be closed due to the level of disrepair, which could result in reduced attendance and revenues. The government's capital planning process requires that the Ministry conduct a formal assessment of the value and condition of its assets, including those of a historic or heritage nature. However, for most assets, no monetary value was assigned and no condition assessment done. In those instances where a condition was provided, it was often too imprecise to determine the amount of funding required to maintain the asset. For instance, some assessments identified an asset as "deteriorating" or "fair".

Many of the assets at the province's agencies and attractions are considered by both ministry and agency management to be in serious need of repair. For the 2001/02 fiscal year, tourism agencies had estimated that $75 million in capital funding was required over the next five years for repairs and maintenance. The Ministry received approval for $30 million over the next five years. During the 2001/02 fiscal year, the Ministry allocated the $5 million in funds received to high-priority health and safety capital projects. No funding was available for regular repairs and maintenance or for new capital projects.

Recommendation

To ensure that its tourism agencies' and attractions' assets are adequately maintained for the benefit of future generations and provide a safe environment for staff and visitors, the Ministry should:

- **conduct a formal assessment of the value and condition of all of its assets, especially those of a historic or heritage nature; and**
- **develop a long-term capital maintenance plan to identify the funding needed to rehabilitate the capital infrastructure and preserve assets.**

Ministry Response

The Ministry concurs with the recommendation that a formal assessment of the value and condition of all its assets is key to a long-term maintenance plan—to identify funding needed to rehabilitate infrastructure and preserve assets and to build solid business cases for continued investment by the province in its assets.

The Ministry currently does not have operating funds available and will need to examine alternative avenues to implement the recommendation related to the formal assessment. However, the Ministry will continue to prioritize health and safety needs among other capital requests on an annual basis.

The Ministry is working on the development of a more strategic approach to capital maintenance planning.

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Service Standards and Accommodation Rating Systems

One of the primary objectives of the Ministry of Tourism and Recreation is to encourage and promote improvements in the standards of accommodations, facilities, and services offered to travellers in Ontario.

Accommodation rating systems enable a future visitor to plan and choose accommodations based upon a quality-assurance system. With the increased use of the Internet, potential travellers can now plan their trips by accessing the Web sites of prospective destinations. To remain competitive, potential destinations must offer a variety of experiences and provide an indication of the quality of the service or attraction.

Although private organizations have established rating systems for accommodations, Ontario is one of a few leading tourist destinations that does not have province-wide quality assurance standards or an accommodation rating system. Some Canadian provinces have province-wide, voluntary, accommodation rating systems that are either government operated or administered by the private sector. In 1999, as part of the Ministry's draft Tourism Strategic Plan, the need for an industry-led rating system for hotels, motels, and campgrounds was highlighted as an important initiative to enhance industry competitiveness.

We reviewed several recent attempts by the province to develop tourism service standards and accommodation rating systems and noted the following:

- In March 2001, the Ministry agreed to provide $155,000 towards a tourism excellence program. The goal of the program was to raise the level of service and professionalism in Ontario's tourism sector to international standards. The program consists of three levels; commitment, implementation and results. As of March 2002, only 15 businesses had registered in the program and only five of these businesses had achieved the first of the three levels of excellence. If the program is going to meet its goal of improving the level and quality of service provided, more tourist establishments need to be registered.
- In 2000, the Ministry of Agriculture, Food and Rural Affairs, through its Rural Jobs Strategy Fund, agreed to provide $1.1 million to two private-sector organizations to develop voluntary rating systems for roofed accommodations (hotels, motels, lodges, and resorts). However, as of March 2002, the private organizations had only rated 170 of the estimated 5,500 establishments in Ontario. In contrast, another Canadian province reported that more than 2,800 accommodation establishments were members of its rating system and they were targeting an annual increase of 2%.

  Due to a lack of support from the industry, the Ministry of Agriculture, Food and Rural Affairs withdrew funding from one of these organizations. It funded a third private organization to deliver a quality assurance program for campgrounds. Staff of the Ministry of Tourism and Recreation were not aware of the results achieved for this program.

Recommendation

To help encourage and promote improvements in the standards of accommodations, facilities, and services offered to travellers in Ontario, the Ministry should:

- **review accommodation rating systems in other provinces and those supported by other Ontario ministries;**
- **take a lead role in encouraging and promoting the development of province-wide rating systems in Ontario; and**
- **integrate any resulting rating systems into its information network.**

Ministry Response

The Ministry will be undertaking a review in December 2002 of the Tourism Excellence Program, a voluntary program, to determine the reasons for the lack of participation by tourism operators.

The Ministry will explore ways to renew the interest of tourism operators in the Tourism Excellence Program and implement changes required to ensure the program is accessible and of interest to tourism operators/businesses.

The Ministry will explore with the Corporation the concept of rating systems and the value of incorporating rating systems into our programs.

Currently, the tourism industry uses the Canada Select Program as its rating system, which is administered by a tourism industry alliance.

Consumer Comments and Complaints

To encourage and promote improvement in tourism establishments and services, the Ministry invites travellers to provide comments and complaints regarding their visits to Ontario. Comments and complaints are received primarily at travel information centres or by direct contact with other ministry offices.

The *Ministry of Tourism and Recreation Act* does not give the Ministry the direct authority to collect personal information, including any personal information contained in a comment or complaint. When written correspondence is received, ministry staff are instructed to remove any personal information. After receiving the written authority of the complainant, the ministry forwards the original complaint to the public or private organization that can provide some assistance.

The *Tourism Act* states that the Minister may appoint one of more persons to investigate, inquire into, and report to him or her upon any matter connected with or affecting the tourism industry. However, the 1998 amendments to the Regulations under this Act eliminated the Minister's broad investigative powers by indicating that the Act and Regulations apply only to tourist establishments that make use of Crown land.

Consequently, the Ministry has limited authority to investigate public comments and complaints arising from products and services delivered by most of the tourism industry.

Consumer comments and complaints about goods, services, or travel experiences can provide useful information about the quality of the services provided by the Ministry and the tourism industry. However, the Ministry does not have a formal process in place to track the number and type of comments or complaints it receives each year. Ministry correspondence indicates that the majority of complaints it receives relates to accommodations, attractions, and border crossing. The tracking of comments and complaints could reveal trends over time and would support the Ministry's activities to encourage and promote improvements in the standards of the province's accommodations, facilities, and services.

Recommendation

To help assess the quality of service and consumer satisfaction with Ontario's tourism experiences, the Ministry should:

- **reassess the need for the current restrictions on responding to concerns and complaints from the public; and**
- **establish standard guidelines for recording, consolidating, evaluating, and taking action on public comments and complaints.**

Ministry and Corporation Response

The Ministry agrees it is important to be aware of the quality of its services and consumers' satisfaction with Ontario's tourism experiences. The Ministry will review its consumer complaints processes and will seek legal advice on the legislative requirements.

The Corporation and its service provider have been tracking the number and nature of complaints received via the Tourism Consumer Information System, which includes a 1-800 number, e-mail, web concierge, and regular mail. Reporting will become more accurate and formal as the system moves from "pilot" to "ongoing run" mode, which is expected to happen by the end of 2002. The feedback will be used to track consumer satisfaction with our services and operation of the services. We will make improvements and adjustments based on this feedback and other information throughout the life of the system.

Management of Consulting Services

The Ministry and the Corporation engage management consultants for a number of reasons, including the lack of in-house expertise, the need for independent review, and the need for resources over short time periods. During the three years ended March 31, 2002, the Ministry and the Corporation entered into more than 200 consulting contracts at a

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- Most projects examined did not have an adequate business case on file, and terms of reference were either not prepared or did not provide sufficient detail on the project's scope and deliverables. In several instances, the contract terms and conditions had not been reviewed and approved by legal counsel to ensure the interests of the Ministry and the Corporation were appropriately protected. We also found that the performances of consultants had not been formally evaluated as required after projects were completed.
- The required competitive acquisition processes often did not meet the approval and competitive acquisition requirements. Several contracts were awarded directly to the vendor without competition even though the ceiling price exceeded the tendering limit of $25,000. Other contracts with a ceiling price of less than $25,000 did not include, as required, anticipated expenses—which would have brought them over the $25,000 tendering limit.
- We observed situations where projects were split into separate contracts each valued at less than $25,000, thus avoiding open competition requirements. The consultants were hired continuously on year-to-year contracts. In some instances, the total value of all follow-on agreements was more than double the ceiling price of the initial agreement. These extensions were made without evaluating the consultant's performance or assessing the reasons why the original deliverables had not been provided.
- In several instances, consulting services had commenced prior to the contract being signed or finalized, and in two instances, no contract was prepared at all. In another instance, a $40,000 contract extension was signed even though the original contract had expired a year earlier. During the period when the consultant was not under contract—between the expiration of the original contract and the signing of the contract extension—the consultant was paid over $25,000.
- We observed instances where the relationship between the Corporation and consultants could be construed as an employee–employer relationship and therefore may have been subject to a number of income tax rules, such as the requirement to withhold income tax and Canada Pension Plan contributions. For example, we noted that a consultant's contract stipulated a daily per diem rate, but the consultant received a monthly payment regardless of the actual number of days worked. In addition, one consultant was using business cards from the Corporation and was giving his business address as the Corporation's head office.

Recommendation

To help ensure that consultants are engaged in a fair and competitive manner and that value for money is being achieved, the Ministry and the Ontario

Tourism Marketing Partnership Corporation should comply with the Management Board of Cabinet (MBC) directives on the acquisition of consulting services. Special emphasis should be placed on improving the monitoring and evaluation of consultants' performances and on improving contracting practices.

Ministry and Corporation Response

The Ministry has implemented a Web-accessible Spending Delegation Framework that clarifies the requirements set out in the MBC directives on consulting services. In addition, a "Best Practices for Managing Consulting Services" pamphlet that emphasizes the importance of evaluating consulting performance will be provided to all managers. Presentations will be made to managers to ensure the Framework and Best Practices are understood and adhered to.

The Corporation will put in controls beginning September 2002 to improve procurement practices and execution of consulting contracts to ensure they comply with the MBC directives. The Corporation will consult with Management Board Secretariat and Shared Services Bureau on procurement when hiring consultants and consult performance evaluation tools to support contract management. Training on procurement and contract management for managers and staff is planned for fall 2002. The objective of the training is to increase managers' understanding of contract management, and improve their skills in monitoring and evaluating the work of consultants and in providing required documentation for consultants' performances, results, payments and contract conclusions.

INFORMATION MANAGEMENT

Tourism Consumer Information System

In 1999, the Ministry and the Corporation decided to develop a new Tourism Consumer Information System (System) to promote Ontario as a tourist destination using an integrated telephone call centre and Internet system. In 2000, the Ministry obtained approval from the Management Board of Cabinet to engage a private-sector company to develop and operate the new system. The Management Board of Cabinet indicated that the entire project's costs over four years were not to exceed $17.7 million.

In August 2000, the Corporation issued a request for proposals (RFP), prepared by a consultant, for the development of the proposed System. In January 2001, the successful supplier was selected and the Corporation began negotiating a contract with the help of a consultant. At that time, it was anticipated that the proposed system would be operational by the summer of 2001. However, a contract was not finalized with the successful vendor until August 2001. The contract that was arrived at after lengthy negotiations was for a value of $9 million. We selected a sample of contracts and observed that the Ministry's and the Corporation's procedures did not ensure compliance with the Management Board of Cabinet requirements for engaging the services of a consultant. For example:

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We examined the processes and procedures followed by the Ministry and the Corporation in the approval, acquisition, and development of the System. We found that the Ministry followed the Management Board of Cabinet directive for competitive tendering . However, we noted a number of areas where the Ministry and the Corporation needed to improve their information technology project management. Specifically, we noted the following:

- Neither the Ministry nor the Corporation had the necessary in-house staff skills to develop the RFPs, negotiate the contract, and manage a project of this magnitude and complexity. As a result, corporation and ministry staff responsible for the project relied on staff from other ministries and private consultants to provide expert advice and support during negotiations and all phases of the project. Although such specialized expertise was necessary, we found little or no evidence of a transfer of knowledge from consultants to ministry staff to avoid a continuous reliance on consultants. The experience gained can facilitate the monitoring of the system once it is operational and help in the retendering and renegotiation of the existing contract when it expires.
- A key component of the development of the System, as outlined in the RFP, was a $2-million marketing strategy. However, we noted that the intention to fund the marketing strategy as part of the development of the System was not disclosed in the Ministry's submission to the Management Board of Cabinet for approval. In addition, the Corporation did not receive specific approval for this marketing strategy from the Advertising Review Board, which is responsible for approving all government advertising or communication projects in excess of $500,000.
- The RFP developed by the consultant did not provide prospective bidders with sufficient information on the expected system requirements, the scope of the work, service standards, or remedies for nonperformance. Consequently, prospective bidders raised over 100 supplementary questions, which had to be clarified during the contract negotiation process. The lack of clarity in the RFP was a major reason for the delay in the tendering process and contract negotiations.
- In the RFP, the Corporation indicated its desire to have the System developed and operated on a fixed-price basis. For a fixed-price contract, the risks of cost increases are borne by the successful bidder unless there are significant changes to the original specifications. The financial terms and conditions agreed to with the vendor were based on a fixed price for the development and maintenance of the system. However, the supplier does not assume any of the financial risks associated with fluctuations in service levels but the Corporation does. For example, the supplier is guaranteed a minimum of $950,000 annually regardless of the actual volume of telephone calls and Internet activity; but should the number of calls exceed the estimate, then the Corporation would be required to pay an additional $4 per contact.

Recommendation

To support the efficient and economic administration of systems development projects, the Ministry and the Ontario Tourism Marketing Partnership Corporation should ensure that:

- **a transfer of knowledge occurs from consultants to staff to avoid a continuous reliance on consultants;**
- **all significant deliverables and options are included in project business cases and all required approvals have been received;**
- **requests for proposals are well researched and provide a clear description of project requirements; and**
- **financial and operational risks are adequately managed and shared with the vendor.**

Ministry and Corporation Response

The Corporation will facilitate a transfer of knowledge from consultants to staff to the extent feasible since consultants' work is often highly specialized. We will continue to apply knowledge and skills to future large-scale projects to ensure that project teams sufficiently research the business case, consider the options, and seek approval for the project plan prior to issuing a request for proposal (RFP). The Corporation will continue to consult with Shared Services Bureau and the Ministry's Internal Audit Services as appropriate to ensure RFP's are clear and that risks are identified, managed, and appropriately shared with the vendor.

The Corporation is currently working with the Ministry's Internal Audit Services on a plan to educate the new Tourism Consumer Information System team on the details of the contract with its service provider. As well, training will be provided on researching, writing, and managing RFPs.

Internal Audit Services will conduct a risk assessment on the Tourism Consumer Information System project. Based on this analysis, risk mitigation strategies will be developed as appropriate.

Facilities and Attractions Databases

In 1998, the Ministry developed a tourism information database to support tourism industry planning and decision-making and to assist visitors at the Ministry's Travel Information Centres. The database contains information on accommodation establishments, tourist attractions, and golf courses. In 1999, selected information was transferred to the Corporation so it could also provide a tourist establishment database for public use on its Internet site.

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In reviewing the administration and maintenance of the two databases, we observed a lack of co-ordination between the Ministry and the Corporation, as follows:

- The Ministry and the Corporation were using different methods to verify the accuracy and completeness of the tourist establishment information contained in their respective databases. The Ministry annually engages consultants to survey all existing establishments to ensure its information is current and accurate. In the 2001/02 fiscal year, the cost of conducting the survey to update the Ministry's database was $129,000. To keep its database up to date, the Corporation encourages tourist operators to input their updated information on its database.
- The Corporation and the Ministry do not have a process that would periodically compare the information contained in their respective systems and update them as needed. Currently, the Ministry's database contains approximately 10,000 establishments, while the Corporation estimates it has 8,000 in its database.
- The Ministry is actively searching for new tourist establishments to add to its database by acquiring non-tourism related databases, such as the databases for the Alcohol and Gaming Commission and for municipal property tax assessments. However, we noted that neither the Ministry nor the Corporation had entered into partnership agreements with the various regional and municipal tourist associations to share information about tourist establishments.

Recommendation

To help ensure that tourist information is collected in an economical and efficient manner and provides prospective tourists with complete and accurate information, the Ministry and the Ontario Tourism Marketing Partnership Corporation should:

- **establish procedures to share information between their current databases and consider establishing one shared database;**
- **review the feasibility of developing a single method of obtaining and verifying data from tourist operators; and**
- **determine the practicality of entering into partnerships to share data on tourist establishments with other organizations, such as municipal and regional travel organizations.**

Ministry and Corporation Response

The Ministry will work with the Corporation to establish procedures and guidelines for sharing database information in 2003.

The Ministry and the Corporation will in 2003/04 jointly review the feasibility of developing a common process for obtaining and verifying data from tourist operators.

The Ministry has agreements with the Municipal Property Assessment Corporation (a Crown agency), the Alcohol and Gaming Commission, and the Ministry of Natural Resources to exchange or buy data relevant to tourism. The Ministry also receives data from a number of municipalities around the province.

The Ministry previously shared data with tourism associations; however, it discontinued this in 1999/2000 because the Ministry collects data that is not to be used for solicitation or sold. We are exploring ways to make data available for use by tourism stakeholders.

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MINISTRY OF TRAINING, COLLEGES AND UNIVERSITIES

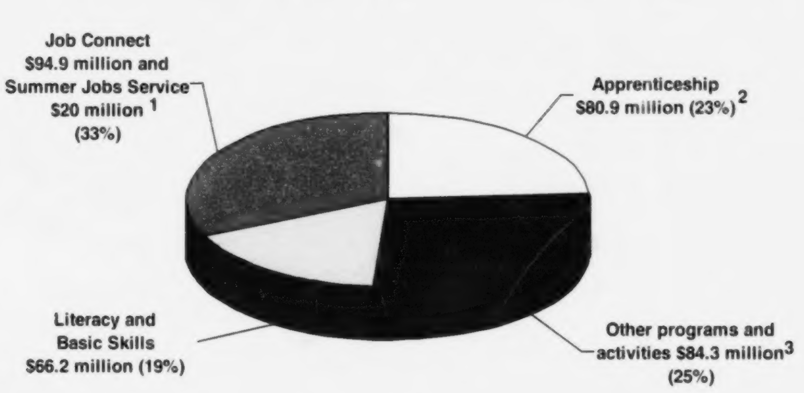
3.11–Training Division

BACKGROUND

The mandate of the Training Division (Division) of the Ministry of Training, Colleges and Universities is to set standards for employment services and adult literacy, to help employers develop a skilled workforce to stay competitive, and to provide leadership on labour market and training issues. The Division's programs and services are intended to assist both individuals and employers in increasing skill levels and to help individuals make the transition from unemployment to employment and from education and training to the labour force.

Division expenditures for the 2001/02 fiscal year totalled $346.3 million and were distributed across four major areas, as outlined in the following illustration.

Division Expenditures by Major Program for the 2001/02 Fiscal Year



[1] For the Summer Jobs Service, the Ministry was allocated $24.6 million, but approximately $4.4 million was then transferred to other ministries for their own summer job programs.

[2] About $26 million of this $80.9 million was recovered from the federal government.

[3] Included funding of $48 million for TVOntario and federal funding of $10.6 million for community colleges, which flowed through the Ministry but was administered by the federal government.

Source of data: Ministry of Training, Colleges and Universities

Colleges of Applied Arts and Technology (community colleges), school boards, and community-based, not-for-profit organizations form the network of agencies responsible for delivering three of the major transfer-payment programs: Job Connect, Summer Jobs Service, and Literacy and Basic Skills. Employers are the primary deliverers of apprenticeship training, while community colleges and private training institutions that are funded by the Ministry and the federal government deliver in-school training assistance.

OBJECTIVES AND SCOPE

The objectives of our audit were to assess whether the Ministry had adequate systems and procedures in place to:

- measure and report on the effectiveness of the Division's major programs in meeting stated objectives;
- ensure that the Ministry and its delivery agencies are meeting labour market and participant needs in an economic and efficient matter; and
- ensure key activities and programs are delivered in accordance with legislative and policy requirements.

Our audit was performed in accordance with the standards for assurance engagements, encompassing value for money and compliance, established by the Canadian Institute of Chartered Accountants, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

The audit focused on the following major programs: Job Connect, Summer Jobs Service, Apprenticeship, and Literacy and Basic Skills. These programs account for approximately 75% of the Division's expenditures. The scope of our audit work included reviews and analyses of relevant ministry files, administrative policies, and procedures, as well as interviews with staff at both the head office and field offices. We also visited delivery agencies for each program to examine files and other supporting documentation and to interview staff.

Prior to the commencement of the audit, we identified the audit criteria that we would use to conclude on our audit objectives. These were reviewed with and agreed to by senior management for the Division.

We conducted our audit work during the period October 2001 to April 2002, with an emphasis on activities and expenditures in the 2000/01 and the 2001/02 fiscal years.

The Ministry's Internal Audit Services Branch had recently commenced an audit of controls over the administration of apprenticeship examinations and revenue collection that it expected to complete by summer 2002. Accordingly, we reduced our audit work in these areas. The Branch had not completed any audits that allowed us to further reduce the extent of our work in the programs we examined.

OVERALL AUDIT CONCLUSIONS

The Ministry has taken steps to design systems for providing meaningful performance information about its major training programs and the delivery agencies it funds. At the time of our audit, the systems and processes necessary to ensure that services are delivered economically and efficiently and that the programs' objectives and expected outcomes were being achieved had not been completed. Successful implementation of both the initiatives currently under way and our recommendations is essential to ensure that the needed systems and processes are in place.

We also found that the Ministry did not adequately control the acquisition and management of consulting and other services acquired through agencies on the Ministry's behalf over the last several years. Our program-specific observations and conclusions are as follows.

Job Connect and Summer Jobs Service Programs

- While the Ministry had set clear expectations for the performances of its delivery agencies and linked funding to the achievement of those expectations, it did not have adequate procedures to ensure that the actual results that the agencies reported were reliable and that service-delivery requirements were being met. The Ministry had begun to collect and report participant and employer satisfaction and service co-ordination information. Once adequate controls over data reliability are established, this information will help it to determine whether agencies are meeting participant and labour market needs efficiently.
- The delivery agencies we visited for these programs were complying with program requirements, including appropriate assessments of participant needs and maintenance of required documentation.

Apprenticeship Program

- The Ministry was not monitoring the quality of apprenticeship training provided by employers and in-school training providers.
- Efforts to co-ordinate enforcement responsibilities and share information with the Ministry of Labour and other bodies responsible for workplace inspections have not been sufficient to determine the extent to which uncertified individuals are working in restricted trades. Effective enforcement of restricted trades is necessary to ensure legislated objectives for protecting public and workplace safety are met and to maintain the value of obtaining certification in restricted trades.
- Training standards, curricula, and examinations had been updated for most trades with significant apprenticeship enrolment but a few were decades old.
- The Ministry was developing an apprenticeship information system that it expected to have in place by 2004. Until then, it will not have the performance information needed

to link funding for in-school training providers to their performances in providing quality training or to report publicly on program outcomes.

Literacy and Basic Skills Program

- The Ministry had not linked funding to the actual activity levels and performance achieved by its delivery agencies. The systems and procedures that are needed to collect and report meaningful performance information were under development.
- The procedures established by the Ministry to monitor whether delivery agencies were meeting expectations were not sufficiently focused to permit effective oversight of agency performance and consistency of follow-up on corrective action.
- The delivery agencies we visited were complying with program requirements.

Acquisition and Management of Consulting and Other Services

We noted that since the 1998/99 fiscal year the Ministry has paid two third-party, not-for-profit agencies funds totalling approximately $11 million to undertake significant projects and to purchase related consulting, information technology, and other services for the administration of the Job Connect and Literacy and Basic Skills programs. In doing so, the Ministry did not adhere to prudent purchasing practices and did not obtain the approvals from the Minister and Management Board of Cabinet that would have been required if the projects had been undertaken and the services acquired by the Ministry directly, which resulted in the following:

- services amounting to about $8 million were acquired from private-sector suppliers with little or no competition; a further $2 million in services were provided directly by one of the not-for-profit agencies;
- information systems project requirements were not well defined before the projects began;
- funds were advanced before they were required in some cases;
- contract monitoring was not adequate to ensure all billings were appropriate;
- there was no documentation to support a significant increase in project administration fees; and
- GST charges totalling $600,000 were incurred because the agencies were not GST-exempt—$235,000 of that amount was overbilled and should be recovered.

While the Ministry's Job Connect information system has allowed it to improve the administration of the program, it could not demonstrate that it obtained value for money in developing the system or in undertaking the other projects we examined. The Ministry has committed to improving and has already taken some action to strengthen its procedures for managing all existing and future projects.

DETAILED AUDIT OBSERVATIONS

JOB CONNECT AND SUMMER JOBS SERVICE PROGRAMS

Job Connect primarily assists unemployed and out-of-school youth between 16 and 24 years of age in gaining the skills and knowledge necessary to find and keep employment. It is delivered at 123 sites across Ontario by 78 agencies consisting of 22 community colleges and 56 not-for-profit organizations. The agencies provide the services outlined in the following table.

Job Connect—Services and Participants, 2000/01

Service Delivered	Number of Participants Receiving Service
Information and referral service: a walk-in, self-service community employment resource centre providing information on careers and occupations, the local labour market, training opportunities, job search strategies, and employment related workshops.	35,840
Employment planning and preparation: a service that assists participants who require more structured assistance to plan and conduct job searches (includes instruction in resumé preparation and effective interview skills).	59,635
Job development placement supports: a resource for participants receiving employment planning and preparation services but who require more intensive assistance to develop their skills and gain experience through such supports as job trials, volunteer placements, subsidized on-the-job training opportunities, and direct employment placements.	26,725
Subsidized placements: placements that vary in duration but cannot exceed a period of six months, with a yearly maximum subsidy of $ 4,000 per participant. Both duration and subsidy levels are negotiated based on the training needs of the individual, the employer's willingness to provide the training, and the placement support services that will be provided by the delivery agency. The hourly subsidy cannot exceed the minimum wage.	22,258

Source of data: Ministry of Training, Colleges and Universities

About 97% of the almost $95 million of program expenditures in 2001/02 were transfer payments to agencies. Of the $91.7 million provided to these agencies, 65% was for service delivery, 30% was for training subsidies, and 5% was for special projects.

Through the Summer Jobs Service, employers can receive a $2-per-hour training subsidy to hire students for up to 16 weeks from April to September. This program is delivered primarily by the same agencies that deliver the Job Connect program. For the 2001/02 fiscal year, about 27,000 students were expected to receive summer employment services.

Of the $20 million provided to delivery agencies in 2001/02, about 80% was for training subsidies and the remainder was for program delivery and administration.

Measuring and Reporting on Program Effectiveness

We concluded that the Ministry has made substantial progress in ensuring that funding provided under the Job Connect program complies with the Management Board of Cabinet Directive on Transfer Payment Accountability. Specifically, the Ministry had developed clear expectations and performance measures that focused on measurable results rather than on process to assess the achievement of program objectives and was adjusting funding based on the performance of transfer-payment recipients.

The Ministry began implementation of a Continuous Improvement Performance Management System (CIPMS) for evaluating the performances of Job Connect delivery agencies on April 1, 2000. As part of this management system, the Ministry has established six core performance measures that relate to employment planning and preparation services and job development placement supports. The following table illustrates the core performance measures.

Core Measures and Service Delivery Standards, 2001/02

Dimension and Its Relative Importance	Measure		Standard for Core Measure
Customer service 30%	1	Participant satisfaction	Questionnaires completed by agency at program exit; 85% satisfaction level set as an interim target.
	2	Employer satisfaction	
Effectiveness 50%	3*	Participant employed three months after exiting the program	Standard is set at 64% for paid employment based on 100% survey. On a sample basis, agencies conduct 6- and 12-month follow-ups, but those results are not counted as a core measure and no standard has been set.
	4*	Participant profile	Composite indicator derived from the sum of nine factors that indicate level of need for services.
Efficiency 20%	5	Service co-ordination	Composite indicator derived from a number of external linkages at exit that include participants registered in English as a second language, literacy training, federal training, and returned to education.
	6*	Intake	Actual number of participants receiving service compared to planned. Standard set at 100%.

* These three measures form part of a provincial service delivery standard that delivery agencies must meet to continue to qualify for funding. The remaining three core measures have interim targets that the Ministry intends to refine and include as part of the provincial standard once it is satisfied with the data being collected and reported. Until then, agencies are still expected to achieve their interim targets.

Source of data: Ministry of Training, Colleges and Universities

Agencies that fail to meet the provincial service delivery standard are required to develop plans for improvement within clearly defined timelines. If an agency fails to meet the targeted timelines, the Ministry may terminate funding.

The Ministry was using information reported by its delivery agencies to shift funding to those agencies that meet performance targets and demonstrate the ability to increase their intake numbers. Ministry consultants have worked closely with underperforming agencies to help them achieve improvement targets and deadlines. The Ministry has also used independent coaches to help agencies improve service delivery and results.

The CIPMS is a significant initiative that can assist the Ministry to manage the program effectively and to demonstrate that it has done so. However, given the funding consequences if the provincial service delivery standard is not met, there is a significant risk that delivery agencies will simply report the expected results rather than actual performance. Accordingly, the Ministry needs to take steps to verify that the performance information it is collecting is reliable and that the performance targets it establishes are appropriate. In this regard we noted the following:

- The Ministry relies on agency personnel to submit performance information. Agency personnel complete participant and employer satisfaction questionnaires and conduct three-month employment follow-ups, primarily over the telephone, without third-party verification.
- The achievement targets for the core measures that make up the provincial service standard have not been updated since their introduction in 1999/2000. Since implementation of the service standard, delivery agencies reported continually improved results. As of December 2001, agencies overall exceeded the provincial standard by 11% and only 2 of 78 agencies reported that they had not met it compared to 15 in 2000/01. Agencies also reported that, on average, 70% of their participants were employed three months after exiting the program versus the provincial standard of 64%.
- As part of the CIPMS, the Ministry plans to develop and implement a benchmarking process that would allow the comparison of the program performances of Job Connect to that of similar programs in other provinces and jurisdictions. At the time of our audit, the process had not been developed.

For the Summer Jobs Service program, the only performance measure established was a comparison of actual to planned intake targets for subsidized placements. Intake information is not sufficient to assess the effectiveness of the Summer Jobs Service program or its delivery agencies. More useful performance information would include participant and employer views of the need for the program and the level of satisfaction with both the delivery agency and the program, as well as the extent of any ummet demand for placements from youth or employers.

M121

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Recommendation

To help ensure its Continuous Improvement Performance Management System (CIPMS) operates as intended to monitor and improve the overall performance of delivery agencies for the Job Connect and Summer Jobs Service programs, the Ministry should:

- **establish procedures to periodically verify the reliability of the performance information reported by delivery agencies;**
- **complete the development of benchmarking for the Job Connect program to allow comparisons with other jurisdictions; and**
- **establish more meaningful measures for assessing the performances of the Summer Jobs Service delivery agencies and the effectiveness of the program overall.**

Ministry Response

We agree with this recommendation. Currently, the 287 statistics reported by agencies to the Ministry are validated through cross-references in the Ministry's database system. In addition, agency follow-up is conducted where system checks show anomalous data. We are pleased this audit did not find any inconsistencies among information in the client files, the agency database, and the Ministry's database. In order to improve the process in 2002/03, the Ministry is updating and documenting site visit procedures to include a process for verifying information, with a particular focus on the recently implemented service co-ordination and customer satisfaction ratings.

The benchmarking process will be started in 2003/04, as per our CIPMS implementation work plan.

We anticipate that all performance measures and standards will be fully implemented in the 2003/04 fiscal year, and, with information from that year, we plan to benchmark the results. In the interim, in 2002/03 the Ministry's Award for Excellence and the Innovations Awards provide an opportunity to validate and examine the results of high-performing agencies to test our internal benchmarking process. In addition, because agencies are required to commit to targets that exceed their prior-year results, program performance continues to improve even though benchmarks have not yet been identified and provincial standards have not been adjusted.

The Ministry will factor in the need for more meaningful measures in the overall evaluation of the Summer Jobs Service that is underway in 2002/03.

Monitoring Compliance with Program Guidelines

The Ministry revised the Job Connect and Summer Jobs Service program guidelines in June of 2001. The new guidelines describe the objectives and policies governing the programs

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The program has 12 field consultants who act primarily as advisors to agencies. They review their assigned agencies' annual budgets, business plans, and performance reports. However, the annual visits that field consultants make to agencies do not check whether agency procedures and files meet ministry expectations or whether the reported performance information is accurate. To be cost effective, field consultants could use their knowledge of the agencies to assess the risk that an agency may fail to comply with requirements or may report inaccurate results. This assessment of risk would help consultants plan the frequency of visits and the extent of the review to be done at each agency.

Recommendation

To help ensure that delivery agencies for Job Connect and Summer Jobs Service programs comply with ministry guidelines and that the performance information on which funding is based is reliable, the Ministry should establish a risk-based program of periodic visits by field consultants to delivery agencies.

Ministry Response

We agree with this recommendation. Agencies below performance standards are now visited by ministry staff for an in-depth assessment of risk, of compliance with program guidelines, and to establish ministry-directed performance improvement targets. A comprehensive review process is undertaken for all sites with ministry-directed improvement targets.

In addition, other indicators, such as ongoing difficulty in data or financial reporting or customer complaints, generate agency visits/reviews. As noted, the audit field visits confirmed compliance with program guidelines and directives.

All sites will be visited at least once within the three-year life of the funding contract.

APPRENTICESHIP PROGRAM

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Apprenticeship is a work-based training model that combines on-the-job training (approximately 90%) with classroom training (approximately 10%). The length of an apprenticeship can range from two to five years, during which time the apprentice must typically complete at least three in-school training sessions.

Each apprentice signs a training contract with an employer that requires the employer to help the apprentice acquire both work experience and trade-specific competencies. Once a training contract is signed and filed with the Ministry, the apprentice is officially registered. Upon successful completion of the apprenticeship requirements, an individual receives a certificate of apprenticeship. For certain trades, the apprentice must also pass a trade-specific examination to obtain a certificate of qualification. Individuals not registered as apprentices are also entitled to take the trade examination if, for example, they can demonstrate that they have obtained the required work experience in another jurisdiction. As of January 2002, there were 136 trades involving about 52,000 registered apprentices. Certification is mandatory for 20 of these trades.

Program expenditures for the 2001/02 fiscal year included $58 million paid to training delivery agencies for in-school training and for updating programs (about $26 million of which is recovered from the federal government) and $22.9 million for the Ministry's direct operating expenditures.

The program is administered by some 250 ministry staff, about 100 of which are training consultants located in 26 ministry field offices across the province. These training consultants register apprentices and consult with employers and training delivery agencies.

Measuring Program Effectiveness

In June 1998, the Minister of Training, Colleges and Universities announced a long-term commitment to significantly increase the number of annual apprenticeship registrations to 22,000 from the 1998/99 level of 11,000 to meet the demand for skilled workers and to support job creation. In its annual Business Plan, the Ministry reports the number of apprenticeship registrations but does not publish any other meaningful performance information about the program. Internally, it established two additional program commitments for which progress is to be tracked: increasing the number of active and new employers from 18,100 in 1999/2000 to over 23,000 in 2001/02 and increasing the proportion of apprentices who successfully complete their classroom training from 60% in 2001/02 to 75% over the long term.

While tracking progress against these commitments will help the Ministry assess the degree of success in encouraging greater acceptance of and support for apprenticeship training, it will not be sufficient to assess the program's contribution to meeting the demand for skilled workers in Ontario, a stated objective and priority for the program. Increasing the number of registered apprentices and active employers *will* not meet the demand for *skilled* workers unless apprentices complete their programs and acquire the training and skill sets needed by the labour market.

Consequently, the Ministry needs information on apprenticeship completion and employment rates in relation to labour market demand. This, combined with participant survey information, would provide a better indication of the appropriateness of the training being provided and of any areas requiring improvement. For example, each year the Province of Alberta publishes the percentage of qualified apprentices obtaining employment, the percentage of apprenticeship graduates satisfied with their work experience and technical training, and the percentage of employers satisfied with the apprenticeship training system.

In early 2002, the Ministry began developing a new information system for the Apprenticeship program; its targeted completion date is mid-2003. The Ministry expects that this new system will enable it to collect information to better manage the program and report on results. The Ministry has also begun a project to develop and implement meaningful, outcome-based performance measures that it hopes to have in place by January 1, 2004.

Recommendation

The Ministry should ensure that the information and performance management systems it is developing will, as soon as possible, allow it to begin reporting publicly on achievements with respect to apprenticeship completion and employment rates as well as the extent to which the apprenticeship program is meeting the expectations of apprentices and employers.

Ministry Response

We agree with the recommendation. The business planning and allocation process for 2002/03 includes a plan for the development of a continuous-improvement performance-management system for apprenticeship in Ontario. The Ministry is on target to implement outcome-based performance measures by January 2004 and thereafter to report publicly on achievements, including apprenticeship completion and employment rates.

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Increasing Opportunities for Apprenticeships

The Ministry was in the process of implementing several strategies to expand the Apprenticeship program to provide the skilled workers needed by the labour market. A new policy on developing apprenticeship occupations that responds to the demands for skilled labour remained to be finalized at the time of our audit.

The Ministry added 29 new apprenticeship trades over the past four years although they only accounted for about 6% of total apprenticeship registrations in each of those years. In fall 2001, the Ministry identified another 14 occupations as potential apprenticeship trades, five of which had been delayed to fall 2002. A common problem in many jurisdictions is the difficulty of expanding the apprenticeship system beyond traditional trades, such as those in construction and the automotive sectors, into less traditional and faster growing occupations, such as those in business and commerce, health sciences, natural sciences, and social sciences. Many of the new trades introduced in Ontario over the past two to three years, and even trades under development, are in traditional areas of apprenticeship. However, if the Ministry is to meet its targets for the expansion of apprenticeship training, it will need to develop more apprenticeship programs in new occupations and sectors.

We will follow up on the Ministry's efforts to expand opportunities for apprenticeship in Ontario in conjunction with the follow-up of our recommendations in two years' time.

Updating Apprenticeship Standards

To maintain the quality and credibility of the Apprenticeship program, apprentices and applicants for certificates of qualification must be trained and tested using up-to-date marketplace requirements.

The Director of Apprenticeship has the statutory authority to approve apprenticeship programs, including applicable training standards, curricula, and examinations, as well as the responsibility for maintaining them. Apprenticeship training is intended to be industry designed, responsive to the needs of employers for highly skilled workers, and capable of expanding into new trades and areas of economic growth. Accordingly, under both the *Trades Qualification and Apprenticeship* and the *Apprenticeship and Certification* acts, the Minister may establish advisory committees made up equally of employers and employees for any trade or group of trades to develop and update training standards, curricula, and examinations.

We reviewed the current status of training standards, curricula, and examinations for all restricted and compulsory trades as well as for voluntary trades (those where certification is optional) that had at least 50 or more registered apprentices. We found that the training standards, curricula, and examinations for most trades with significant apprenticeship registrations had been updated within the last three years, in accordance with ministry practice for reviewing standards. However, we noted that for several trades, both restricted and voluntary, either the training standards and/or the examinations had not been updated, as indicated in the following table.

Summary of Active Trades for Which Training Standards and Examinations Have Not Been Updated

	Year Issued	Apprentice Registrations Over Past Five Years	Applicants for Certificate of Qualification Over Past Five Years
Training standard			
Motorcycle mechanic	1991	183	96
Domestic and rural electrician	1968	159	283
Examination			
Domestic and rural electrician	1968	159	283
Alignment and brakes	1969	134	141
Transmission technician	1969	134	47
Tower crane operator	1991	71	34
Mobile crane operator-2	1994	103	419
Construction millwright *	1984	347	123
Motive power machinist *	1970	49	17

* Voluntary trades

Source of data: Ministry of Training, Colleges and Universities
Prepared by the Office of the Provincial Auditor

Several of these trades are restricted trades, and these trades represent about 30% of the trades with significant registrations for which the Ministry has the direct responsibility to keep the training standards and examinations up to date. Although these trades accounted for barely 2%—that is, about 1,000—of the 52,000 apprentices registered at December 31, 2001, it is our view that these are active trades that may well be more active if the training standards and examinations were up to date. While we found, as mentioned above, that the training standards and examinations for most trades with significant apprenticeship registrations had been updated within the last three years, the standards and examinations for the trades summarized in the table need to be updated as soon as possible. This would help ensure that apprentices and certificate-of-qualification applicants in these trades acquire the skills and knowledge they need and increase the value and attractiveness of these trades to those considering apprenticeship training in them.

Recommendation

To help ensure that apprenticeship graduates acquire the skills needed to meet employer needs, the Ministry should ensure that all training standards and examinations are up to date and reflect current demands of the workplace as soon as possible.

Ministry Response

The Ministry will take action to ensure that by December 2003 all training standards and examinations are updated as appropriate to meet the requirements of industry.

Monitoring Program Quality and Compliance

Because employers are responsible for 90% of apprenticeship training and in-class training providers are responsible for the remaining 10%, monitoring the quality of training provided by both parties is critical to the program's success. Closer monitoring may also increase the likelihood that apprentices will complete their programs and obtain certification. However, at the time our audit, the Ministry had not developed either a policy on monitoring workplace training or procedures to monitor the quality of in-school training.

Training consultants at the field offices we visited conducted few if any monitoring visits to employers and in-class training providers to determine compliance with the training contracts and service agreements, even though the legislation permits such inspections. A number of training consultants we interviewed stated that other priorities, such as registering new apprentices and marketing the program to new employers, had reduced their monitoring efforts. Only one district we visited had information on its monitoring of apprentices and employers.

To make efficient use of limited resources, monitoring efforts need to be based on risk. For example, the program's new information system, when completed, could be used to capture the information needed to identify specific industries or trades that are experiencing low program completion or satisfaction rates. This and other risk-based information would help training consultants focus their monitoring of apprentices and employers where it is most needed.

For in-class training providers, the new information system is expected to facilitate periodic reviews of pass rates for each in-class training provider and trade. This and other outcome-based information will assist the Ministry in monitoring the performance of training providers.

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Recommendation

To better ensure the quality of apprenticeship training and compliance with training requirements, the Ministry should monitor the performance of employers and in-class training providers. Such monitoring should include:

- **on-site visits by field staff to employers and training providers with identified performance problems; and**
- **tracking of the extent and results of monitoring visits to ensure any necessary corrective action is taken.**

Ministry Response

We agree with this recommendation. Presently, field staff do some monitoring when they visit employers and training providers. The apprenticeship information system, now in development, will provide a case or portfolio management system for staff. Portfolio features include workload monitoring, bring-forward or follow-up reminders, and support material for assessment. The features are designed to enhance monitoring activities while assisting staff and management with workload management. To achieve maximum effect with these visits and in order to incorporate the information-gathering and tracking ability of the new information system, we will be developing a more comprehensive and risk-based monitoring policy and process that can be effectively implemented within existing resources.

Enforcement of Legislation on Restricted Trades

Under the *Trades Qualification and Apprenticeship* and the *Apprenticeship and Certification* acts, 20 trades in the construction, motive power, and service sectors have been designated as restricted. Only a certified tradesperson or a registered apprentice may work in these trades. Restricted trades include such occupations as automotive technician or construction electrician. To ensure consumer protection and workplace safety, it is important that individuals working in such trades are properly qualified and trained.

Both acts allow the Ministry to inspect workplaces to ensure only qualified individuals are working in restricted trades. In 1993, an Order in Council delegated enforcement of certificate requirements for 19 of these trades to the Ministry of Labour (the Ministry of Training, Colleges and Universities retained enforcement authority for hairstyling). Enforcement activities were included as part of the Ministry of Labour's normal workplace inspections.

No information-sharing protocol exists between the two ministries although there were plans to implement one in the 2001/02 fiscal year. Our discussions with ministry field staff indicated that the extent of communication and co-ordination with local Ministry of Labour field offices was generally not sufficient to ensure effective enforcement. While some field staff commented that the two ministries had participated in sweeps of selected trades and employers, other staff had little contact with local Ministry of Labour staff to determine the extent of enforcement activities. The Ministry had not clarified its expectations for enforcement activities to be conducted by its field staff.

Also, there are other workplace inspection functions, such as those carried out by the Ministry of Transportation in the automotive sector and the Electrical Safety Authority in the construction sector. The focus of these inspections is more on consumer protection than workplace safety, which is the primary focus of inspections conducted by the Ministry of Labour. The Ministry has not established any protocols for sharing information about their activities.

Consequently, the Ministry did not know the extent to which uncertified individuals might be working in restricted trades. Currently, only anecdotal information provided by stakeholder groups and complaints to field offices provide information on this problem. Effective enforcement not only protects consumers and workers but also maintains the value of entering a restricted trade, thereby increasing the likelihood that apprentices will complete their training.

We noted that registrations in restricted trades have been increasing over the past four years, but there has not been a corresponding increase in the number of registered apprentices writing the required examinations to obtain their certificates of qualification. We also noted that, over the past three years, school enrolments for two restricted trades—automotive technician and auto body repairer—have declined by 12% and 26% respectively, despite increasing apprenticeship registrations in those trades. If there is little enforcement of apprenticeship requirements for restricted trades, apprentices may question the value of completing their programs.

In implementing its new apprenticeship information system, the Ministry needs to capture information about the extent of non-compliance in specific trades and workplaces to help focus enforcement efforts where they are most needed.

Recommendation

To help reduce the extent of uncertified individuals working in restricted trades, the Ministry should:

- **establish information-sharing protocols with the Ministry of Labour and other organizations that conduct safety inspections;**
- **train field staff on ministry expectations for enforcement across the province;**
- **use its new information system to help focus enforcement effort on industries, trades, and workplaces where the risk is greatest; and**
- **monitor the impact of enforcement activities on apprenticeship program results.**

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Ministry Response

We agree with this recommendation and will be establishing an information-sharing protocol with the Ministry of Labour. There are also opportunities for ministry staff to benefit from an information-sharing protocol with the Ministry of Transportation, which enforces the restricted-certification skill-set programs for air-brake adjustment and truck-tire maintenance and may be in a position to identify mechanics operating without the required apprenticeship certification (although it has no statutory enforcement authority in this latter situation).

The Ministry will begin negotiations with the Ministry of Transportation in the fall of 2002 to enter into an appropriate information-sharing agreement. The Ministry notes that the Electrical Safety Authority (ESA) currently does not have any legal authorization to enforce compulsory certification in the electrical trades. However, the Ministry will continue its work with the ESA and the Ministry of Consumer and Business Services, which has ministerial responsibility for the ESA, to develop an appropriate role for the ESA in enforcement activities in the electrical trades.

The Ministry will review its current guidelines and practices, which will be amended as required by March 2003. All field staff will receive training regarding their responsibilities with respect to enforcement during 2003/04.

The apprenticeship information system will provide the Ministry of Labour and the Ministry of Transportation with access to information as appropriate. This will enable recording of enforcement activities by these ministries and allow them to establish the currency of tradespersons certificates. Appropriate items will be directed to ministry staff for evaluation.

The Ministry will review enforcement activities and monitor program results to determine if a linkage between enforcement activities and results can be made.

Effectively Assessing Prior Learning and Academic Readiness

As stated earlier, apprentices are generally required to complete an in-school portion of their training to attain certification. The minimum educational prerequisite for most apprenticeship training is Grade 12. To assist apprentices, the Ministry has implemented two optional learning assessment tools. One tool provides apprentices with recognition for relevant prior learning, and the second assists apprentices who may need help preparing for in-school training.

PRIOR LEARNING

Prior learning assessment is a process for identifying and recognizing what a person knows and can do. For example, an apprentice may have previously completed some or all of the required in-school components for a trade while attaining a college diploma. To recognize prior learning and reduce unneeded in-school training, thereby accruing savings both to the Ministry and the apprentice, apprentices and non-apprentices who possess the entry requirements for a trade are eligible to write exemption tests. Where exemption tests are not offered, ministry staff can grant an exemption from in-school training if an apprentice can provide satisfactory documented proof of prior learning.

At the time of our audit, exemption tests were offered for only 20 of the 92 trades that require in-school training. Ministry field offices administer standardized exemption tests for 7 of the 20 trades. Colleges offer exemption tests for the remaining 13 trades, although many of their tests do not have standardized content or passing standards.

The Ministry did not formally monitor the use of exemption tests offered either by colleges or by field offices to ensure they were being used effectively. Specifically, the actual use, number of attempts, and pass/fail rates needed to be monitored for each field office and college so that differences among field offices and colleges can be identified and investigated and corrective action taken where necessary.

ACADEMIC READINESS

To help reduce the risk of in-school failure in the apprenticeship program and thereby minimize the financial loss to the Ministry and the apprentice and time lost to the employer, the Ministry developed the Evaluating Academic Readiness for Apprenticeship Training tool (EARAT). The tool has three components that registered or prospective apprentices may find useful—a skills inventory, skill assessment tests, and a self-study guide. The tool can be used to identify areas of academic weakness that need to be addressed prior to attempting in-school training. It also provides information that allows prospective apprentices to make better decisions about whether a specific trade will meet their career expectations and whether they have the interest and aptitude to be successful.

However, we found that the Ministry had not provided field offices with direction on the use, distribution, or administration of EARAT products. Further, the Ministry does not formally monitor field office use of EARAT products. Such monitoring would enable the Ministry to interpret trends in program completion rates and implement corrective action where necessary.

Recommendation

To better ensure that the Ministry's learning assessment tools for the Apprenticeship program—both the assessment of prior learning and of academic readiness—are being used effectively, the Ministry should:

- **standardize and make available exemption tests for each applicable trade;**
- **develop and communicate to ministry and college staff a standard policy on the use and administration of such tools; and**
- **monitor the use and results of both tools and take corrective action where necessary.**

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Recommendation

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- **develop and communicate to ministry and college staff a standard policy on the use and administration of such tools; and**
- **monitor the use and results of both tools and take corrective action where necessary.**

Ministry Response

We agree with this recommendation. All existing trades with an in-school component will have standardized, ministry-approved exemption tests by 2003/04. By the end of the 2002/03 fiscal year, exemption tests will be available in 87 of the 92 trades that currently require in-school training. Exemption tests will be developed for new apprenticeship trades as they are created.

Policies for use of both exemption tests and EARAT (Evaluating Academic Readiness for Apprenticeship Training) tools are in place. In addition, EARAT skill inventories are available on the Ministry's Intranet and all EARAT tools are available on compact disk. Ministry field staff have received training and ongoing support for the use of EARAT tools through Georgian College. The Ministry is currently reviewing the EARAT general policy to encourage more consistent and wider product use, including quarterly reporting from field offices on usage.

Exemption tests administered by the Ministry are now being tracked. Tests shown to be flawed will be revised as needed. The use of EARAT tools is voluntary and client-directed and their quality is validated by stakeholders and revised as required. The Ministry is exploring the value of EARAT to individuals who are not already apprentices.

Managing Program Funding for In-school Training

Total funding for in-school training was $58 million in 2001/02, 90% of which was provided to colleges. The remaining 10% was provided to private training deliverers, such as unions, based on actual attendance. Colleges receive funding for full-time students based on planned attendance and for part-time students based on actual attendance. A daily per diem rate ($59.81 in 2001/02) is used to determine each training deliverer's funding entitlement. Funding for full-time students that is based on planned activity was introduced in 1992/93 to provide stable funding levels and to acknowledge that colleges incur certain costs whether enrolment is higher or lower than planned.

We found that, since our last audit of this program in 1996, the proportion of planned seats actually filled by apprentices had increased from about 88% to 96%. This improvement is due to better forecasting of enrolment as well as increasing part-time enrolment.

As part of its annual funding agreements, the Ministry requires colleges and private training deliverers to submit audited financial statements to provide assurance to the Ministry that per diem rates paid reflect the actual cost-per-day for training an apprentice. However, we interviewed staff from several colleges who indicated that the audited financial statements did not sufficiently reflect their full delivery costs. We also noted that the audited statements of many colleges were long overdue and that ministry staff were not reviewing the ones that had been received. Thus, the value of these financial statements for determining costs per day appears limited.

Also, as the Ministry begins to introduce more outcome-based performance measures for the apprenticeship program, it must find ways to link funding to the quality and outcomes of the training provided. Outcomes to consider include in-school completion rates, apprentice and employer satisfaction, and effective use of assessment tools.

Recommendation

To help ensure that funding levels for in-school apprenticeship training are appropriate, the Ministry should:

- **work with training providers to develop financial reporting that reflects the actual cost of program delivery; and**
- **introduce funding that is linked to the provision of training that results in positive outcomes for apprentices and employers.**

Ministry Response

We agree with this recommendation. On August 1, 2002, the Ministry introduced a new funding model that involves the introduction of classroom fees for apprentices attending the in-school portion of their training. As part of the on-going evaluation, the Ministry will undertake a review of the in-school training-delivery funding model.

The Ministry is developing a Continuous Improvement Performance Management System for the Ontario apprenticeship system. The system is targeted for completion by January 1, 2004. Part of that system is key performance indicators. For example, information will be provided that will allow the Ministry to evaluate pass/fail results by trade, by class, by level of schooling, and by funded training-delivery agent in order to establish a benchmark that would result in a key performance indicator. The Ministry expects that the measures will result in positive changes being made by funded training deliverers.

LITERACY AND BASIC SKILLS PROGRAM

The most recent *International Adult Literacy Survey*, conducted in 1994, found that approximately 20% of the adult Ontario population did not have the basic literacy skills to meet workplace and daily living requirements. The Literacy and Basic Skills program supports and funds some 200 literacy agencies, including not-for-profit community groups, school boards, and colleges that provide services at some 300 sites across the province. The Ministry provides approximately $55 million annually for service delivery and approximately $5 million for service development.

The services provided are intended to help adults improve their literacy skills so that they can enter or re-enter the workforce, go on to further education or training, and/or gain

Ministry Response

We agree with this recommendation. All existing trades with an in-school component will have standardized, ministry-approved exemption tests by 2003/04. By the end of the 2002/03 fiscal year, exemption tests will be available in 87 of the 92 trades that currently require in-school training. Exemption tests will be developed for new apprenticeship trades as they are created.

Policies for use of both exemption tests and EARAT (Evaluating Academic Readiness for Apprenticeship Training) tools are in place. In addition, EARAT skill inventories are available on the Ministry's Intranet and all EARAT tools are available on compact disk. Ministry field staff have received training and ongoing support for the use of EARAT tools through Georgian College. The Ministry is currently reviewing the EARAT general policy to encourage more consistent and wider product use, including quarterly reporting from field offices on usage.

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The services provided are intended to help adults improve their literacy skills so that they can enter or re-enter the workforce, go on to further education or training, and/or gain independence. Accordingly, the program focuses on adults who are unemployed, with special emphasis on those receiving social assistance. To be eligible for services, a client must be at least 19 years old, out of school, and assessed as lacking the literacy skills necessary to find and keep employment or meet everyday needs. Learners must be able to demonstrate progress through their ability to complete exercises related to their goals.

Tracking and Reporting Participant Outcomes

Information about outcomes is essential for assessing and improving the performance of both literacy delivery agencies and the program overall. Performance indicators enable the Ministry to demonstrate whether the delivery agencies and the program overall are achieving the intended results and to link funding decisions to those results.

In 1999/2000, the Ministry established a performance measure for tracking outcomes for participants—the percentage of participants who got a job or went on to further education or training as measured three months after the participant completes or leaves the program. In the Ministry's Business Plan for 2000/01, the Ministry stated its commitment to have its delivery agencies provide 65,000 clients with initial services, such as information and referral. Of those 65,000 clients about 44,000 (68%) were to receive more intensive, longer-term instructional services. Of those 44,000, about 31,000 (70%) were to obtain employment or go on to further education or training.

In its Business Plan for 2001/02, the Ministry increased the target number for clients in all three areas, but did not report publicly on the actual results for 2000/01. Internally, division management reported the actual 2000/01 program accomplishments as "62,800 clients received service and 80% of participants got a job or went on to further education or training." This could lead one to assume that 50,200 clients (80% of the 62,800) had a positive outcome. However, these reported results are misleading for several reasons.

First, the actual 2000/01 program results did not reflect the fact that only 21,700 of nearly 40,000 clients who received intensive services during the year actually completed or left the program. According to the agencies we visited, some clients require several years to complete their goals. However, the Ministry's outcome target did not take into account the number of clients who entered the program in prior years and the number that remained in the program at the end of the year.

Second, in order to determine the rate of positive outcomes, all clients are to be surveyed three months after completing or leaving the program. However, agencies did not use consistent practices in determining which clients to survey. Of the agencies we visited, one surveyed participants who had completed their learning plans, another attempted to contact only participants who had been in the program for a minimum of six months, and only one was properly surveying all clients who had completed or left the program. As a result, delivery agencies on average attempted to survey only 60% of the 21,700 clients who completed or left the program in 2000/01.

Third, agencies were unable to contact about 28% of the clients they attempted to survey. Of the approximately 9,200 clients who were contacted, the agencies reported that about 7,400 clients had a positive outcome, an 80% success rate.

Excluding the approximately 3,800 lost contacts from reported results distorts reported results. For instance, one agency we visited had lost contact rates of 75%, 46%, and 63% over the past three fiscal years. Clearly, the outcomes reported by this agency are less reliable than those reported by agencies that had far fewer lost contacts.

Also, at the time of our audit, the Ministry was unable to track the length of time clients stayed in the program. Length of program participation, combined with other available information such as client profiles, would help the Ministry identify trends in helping participants reach their goals as well as areas needing corrective action.

Recommendation

To strengthen accountability and provide a sound basis for making informed funding decisions about its Literacy and Basic Skills program, the Ministry should:

- **ensure all program delivery agencies consistently conduct and report the results of their participant outcome surveys;**
- **require that all program delivery agencies take steps to minimize lost contacts and to report them as part of program performance;**
- **track and report the length of time clients remain in the program; and**
- **report actual performance results in its Business Plan to permit a comparison with its commitments.**

Ministry Response

We agree with this recommendation, and steps are being taken to ensure all program delivery agencies are consistently conducting follow-ups for all learners after leaving the program. The definition will be clarified in the Literacy and Basic Skills Program Guidelines, and ministry staff will reinforce compliance in program visits.

Lost contacts will be included in the calculation of outcomes beginning with our reporting in 2003/04. Lost contacts will also be factored into program performance measures as they are being developed and introduced over the next two years.

With the implementation of the information management system, the Ministry can now generate a report that tracks the length of time clients remain in the program. In 2002/03, the Ministry will establish baseline data from 2001/02 and will continue to track durations from that point on.

The Ministry has begun the process of developing program outcomes. In the Ministry's 2002/03 Business Plan, the performance targets have been stated

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more clearly to ensure transparency and clarity of understanding. Specifically, a target has been established for the number of clients accessing information and referral services separate from the number of clients accessing the more intensive training-related services. This will facilitate future reporting on program outcomes.

Linking Funding to Performance

The Ministry negotiates annually with each service delivery agency to establish the number of contact hours to be provided. Contact hours represent the total amount of time that an agency is planning to spend delivering literacy services to all of its clients. The ministry-established funding ranges, within which each agency's approved funding allocation must fall, are based on the negotiated level of contact hours. Thus, funding is based on the amount of services to be provided. The Ministry needs to establish a specific link between funding levels and the quality and effectiveness of services in meeting client needs.

Also, the level of funding is not sufficiently responsive to changes in activity levels, either in total or at individual agencies. Specifically, in the two fiscal years since this approach to funding was introduced, agencies have only provided approximately 85% of approved contact hours although they spent 97% of their funding. In 2000/01, for example, delivery agencies planned to provide 6.9 million contact hours for the $57.9 million in funding they were allocated, but they actually provided only 5.9 million hours for the $56.2 million they spent. Consequently, while the approved cost-per-contact hour was $8.35 based on total funding allocated, the actual cost-per-contact hour was $9.38 in that year, about 12% higher than planned.

To determine whether funding provided to service delivery agencies was being adjusted in cases where actual service provided was significantly different than the expected level of service, we reviewed the funding and reported activity for a sample of sites for 2000/01. We noted that 37% of these sites only provided between 52% and 83% of the approved contact hours yet all of them had spent virtually all of the funds provided by the Ministry. Furthermore, for some of the sites we reviewed, this was the case in both years reviewed, as illustrated by the following table.

Examples of Underperforming Agencies

	1999/2000			2000/01		
	Funding Spent (%)	**Hours Provided (%)**	**Actual Cost Per Hour as % of Approved Cost Per Hour**	**Funding Spent (%)**	**Hours Provided (%)**	**Actual Cost Per Hour as % of Approved Cost Per Hour**
Site A	97	87	110	95	70	147
Site B	95	63	151	92	70	134
Site C	97	86	116	99	72	140

Source of data: Ministry of Training, Colleges and Universities
Prepared by the Office of the Provincial Auditor

Recommendation

To help ensure that funding to delivery agencies for the Literacy and Basic Skills program is appropriate and equitable based on the level and quality of services provided, the Ministry should implement a funding model that:

- **sets out the conditions and process which will result in adjustments in funding; and**
- **recognizes whether delivery agencies have been successful in helping their clients achieve positive outcomes.**

Ministry Response

We agree with this recommendation. The Ministry has already begun a review of its funding model. The revised funding model will be based on a principle of transparency and will be linked to performance standards to ensure that quality and effective services are provided. Benchmarks will be established and funding levels adjusted based on performance and circumstances. Introduction of the new funding model will occur late in the current fiscal year with implementation in November 2003 for the 2004/05 business planning year.

Monitoring Delivery Agency Performance

The Ministry requires that its field consultants visit each agency approximately every 12 to 14 months to evaluate its progress towards meeting ministry Business Plan commitments and its level of adherence to program guidelines and standards as well as the overall quality of program management. The agency visits are an important means of monitoring agency and program performance given that performance reporting on the quality and effectiveness of literacy services is under development. Consultants determine which agencies to visit based on: the time elapsed since the previous visit, as well as the consultant's ongoing dialogue with the agency, awareness of specific issues, and overall impressions of the agency's success.

We found that the Ministry's program for agency visits needed to be strengthened. Specifically, the program lacked:

- a formal assessment of risk factors, such as complaints, financial- and performance-reporting problems, failure to meet contact-hour targets, and the results of previous visits; and
- sufficient oversight of the process to ensure that problems identified were acted on in a timely manner.

At the time of our audit, the Ministry was developing an assessment tool to help field consultants assess how well agencies were performing.

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At the time of our audit, the Ministry was developing an assessment tool to help field consultants assess how well agencies were performing.

In addition to effective agency selection, the Ministry needs to maintain an accurate record of all agency visits completed and the status of any corrective actions required. At the time of our audit, the Ministry had begun to maintain a summary of agency-visit activity but it had not been completed.

Recommendation

To more efficiently and effectively ensure that field consultants and delivery agencies for the Literacy and Basic Skills program are meeting its expectations, the Ministry should:

- **ensure that field consultants formally assess the risk of performance problems when selecting and conducting monitoring visits to delivery agencies; and**
- **track and summarize the results of all monitoring visits to determine whether visits are being conducted as expected and whether corrective actions are being taken when problems have been identified.**

Ministry Response

We agree with this recommendation. In 2002/03, the Ministry will formalize the risk-assessment component used for determining the need and frequency of agency visits. The risk-assessment component will be reviewed and refined as performance standards are implemented.

The Ministry will complete its tracking system to ensure all agency visits comply with our risk-assessment approach and will take corrective action as required.

ACQUISITION AND MANAGEMENT OF CONSULTING AND OTHER SERVICES

Since the 1998/99 fiscal year, the Ministry has provided funds to two third-party, not-for-profit agencies totalling approximately $11 million to undertake significant projects and to purchase related consulting, training, information technology, and other services to improve delivery of the Job Connect and the Literacy and Basic Skills programs. In each case, the agency received transfer payments from the Ministry to administer and pay for services on the Ministry's behalf. In doing so, the Ministry did not follow the prudent purchasing and approval policies that would have applied if these significant services had been acquired directly by the Ministry. It also paid about $600,000 in GST on these services that it would not have had to pay had it engaged the service providers directly.

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While the services were engaged to provide standardized systems, reports, and monitoring tools, as well as training and support for program delivery agencies, the Ministry did not adequately control the acquisition and management of these services. We had concerns with the way the services were acquired, the way funds were advanced, and the way the contracts were managed. The Ministry could not demonstrate that value for money was obtained for the services provided.

Information Systems Development Projects

JOB CONNECT

In the 1998/99 fiscal year, the Ministry asked a third-party, not-for-profit agency representing about half of the program delivery agencies to co-ordinate a project to develop and implement the Ministry's Job Connect information system. The not-for-profit agency then hired a company to co-ordinate the project without a competitive process. The company advised us that it hired a systems development firm through a selection process, but we were unable to review the process because the company was not required to retain the relevant documentation for more than three years. The systems developer reported directly to the company. From 1998/99 to 2001/02, the third-party, not-for-profit agency paid the company a total of $4.4 million in ministry transfer-payment funds, including the billings from the systems development firm ($1.1 million in 1998/99, $593,000 in 1999/2000, $1.8 million in 2000/01, and $920,000 in 2001/02). In addition to the original development project, the Ministry's annual funding for this project has included amounts for functional enhancements and maintenance of the system as well as delivery-agency training on the use of the system. The Ministry was planning to provide further funding in this regard in 2002/03.

The Ministry requested yearly proposals from the company between 1999/2000 and 2001/02. The proposals included planned project deliverables and corresponding costs. The annual agreements with the not-for-profit agency itemized the project deliverables the company was to provide but did not provide corresponding costs. The costs were approved as a lump-sum amount only. The annual audited financial statements requested by the Ministry provided assurance on the total project expenditures incurred by the company but not on costs incurred for each project deliverable. Thus, the Ministry could not ensure that those costs were reasonable and appropriate.

LITERACY AND BASIC SKILLS

In March 2000, the Ministry asked a not-for-profit service agency with information-technology and literacy-sector experience to lead development of the Ministry's Literacy and Basic Skills information management system. In this case, the not-for-profit service agency also acted as the project manager for the contract. In August 2000, the agency selected a consulting firm to develop the system based on a bid price of $700,000. In November 2000, the agency submitted a more comprehensive project proposal that included systems development, training, project management, technical support, and administrative overhead costs totalling $3.8 million. The system development component increased from

$700,000—the original bid—to approximately $1.6 million. The remainder of the proposal, $2.2 million, was for project management services, delivery agency training, and technical support to be rendered by the not-for-profit service agency that was selected without competition. The Ministry approved the $3.8 million project proposal in December 2000.

As at March 31, 2002, the total costs billed were about $3.6 million, but the system was not yet complete. System development costs had increased to $2.3 million, a $1.6 million increase from the August 2000 proposal. Three factors increased development costs:

- The project deliverables had not been finalized before the request for proposal (RFP) was issued in August 2000. The request for proposal instructed bidders that "the user requirements and preliminary data designs are still in progress. No decision has been made on what data identified will actually form part of the LBS [Literacy and Basic Skills] information management system." Poorly defined project deliverables forced one bidder to respond "it is difficult to estimate the development work to be done and therefore our work effort."
- The Ministry did not direct the project manager to include the second phase in the RFP in August 2000, but it was included in the November 2000 project proposal received from the project manager. The Ministry eliminated any possible economies of scale from bidders by not including both phases in the original RFP or by conducting another RFP.
- The system development consultant was allowed to add 35% to its original bid to allow for unanticipated changes even before the project had begun.

As with the system consulting service contracts we reviewed for Job Connect, the audited statements provided only the total costs incurred by the agency. Given the limited financial information provided, the Ministry could not compare what it paid for each deliverable to what it had approved for each deliverable.

OBTAINING APPROVALS AND CONTROLLING COSTS

Both of these projects and related consulting contracts were approved and awarded within the Ministry's transfer-payment approval authority. Normally such significant information systems development projects require the approval of the Minister and Management Board of Cabinet. However, by providing transfer-payment funds to third-party agencies, these approvals were not obtained. That approval process is designed to ensure projects have been thoroughly justified and that proper competitive acquisition and project management processes have been established. Government directives also require specific senior management and central agency approvals to be obtained before awarding consulting contracts without a competitive process. However, the Ministry was unable to provide any documentation justifying or approving any exemption from following a competitive process. An open and transparent, well-defined, competitive process was not followed, and without a competitive process, the Ministry could not demonstrate that it obtained value for the funds expended.

In contrast, we noted that the Ministry did obtain all required approvals and followed a competitive process before awarding the consulting contract or releasing funds for the development of its new apprenticeship information system. Ministry operating funds were being used to develop the system.

Computer Acquisition Projects

LITERACY AND BASIC SKILLS PROGRAM

The Ministry hired the same not-for-profit service agency managing the Literacy and Basic Skills program information systems project to oversee two projects to help program delivery agencies acquire new computers and software. The first computer acquisitions were to support program administration and the new information system, and subsequent acquisitions were to support service delivery to participants. The projects commenced in 1999/2000 and 2000/01, respectively, and total funding allocated was $6.1 million: $900,000 for services, such as assessing the equipment and training needs of the agencies as well as for overall project management and administration; and $5.2 million for the acquisition of computers. We reviewed the two projects and noted the following concerns.

The Ministry provided a lump-sum payment to the agency at the commencement of each project, rather than flowing funds only when required. At the completion of the two computer distributions, the agency still held approximately $1.1 million in ministry funding. The surplus funding arose for two reasons. First, the Ministry over-funded the agency by $500,000 even before the two projects began by miscounting the number of agencies to be funded. Second, the delivery agencies spent $600,000 less than expected to acquire the necessary equipment.

In March 2002, the Ministry instructed the agency to use approximately $900,000 of the $1.1 million surplus for other projects, such as purchasing additional computers, developing training courses for the agencies, and constructing a technical support area at the agency's facility. These additional projects were to be completed by March 31, 2002.

No detailed accounting of actual expenditures was obtained by the Ministry. For example, we determined that the agency billed and was paid an additional $48,000 over and above the proposed and approved project administrative fees of $190,000. For the second computer distribution project, the approved fee was based on a percentage of project costs as well as a percentage of the costed computer equipment purchases. As a result, the approved administrative fee increased from $40,000 (15% of costs, excluding computer purchases) for the first project to $150,000 (51% of costs, excluding computer purchases) for the second project. The Ministry could not provide any support for approving the increase.

Job Connect Coaching and Other Consulting Services

In 1999/2000, the Ministry requested another consulting firm to submit a proposal to provide professional coaching services to its Job Connect delivery agencies. Again, no competitive selection process was followed. Between 1999/2000 and 2001/02, the not-for-profit agency involved with the Job Connect information system project paid the consulting firm over $2.1 million from ministry transfer payments, $700,000 in each fiscal year. While most of the money was used to pay for coaching services provided to agencies, the consultant also assisted the Ministry directly by developing an agency evaluation framework and preparing new program guidelines.

GST Payments

The Ministry is GST-exempt when paying for services. However, the consultants were billing the not-for-profit agencies for services rendered, so GST was included in their billings. By using not-for-profit agencies, the Ministry has paid approximately $600,000 more for these consulting services than it would have had to if it contracted directly with these consultants.

For the Literacy and Basic Skills program, the not-for-profit agency correctly billed the Ministry 3.5% GST rather than the full 7% since the third-party administrator is a non-profit organization and is entitled to a 50% refund of GST paid. For services related to Job Connect, however, the not-for-profit agency included the full 7% billed by the consultants in its billings to the Ministry. We estimated that, since 1998/99, the Ministry paid the administrator $235,000 for GST that the administrator did not have to pay.

Recommendation

To better ensure that value for money is achieved in acquiring consulting and other services, the Ministry should:

- **comply with government policies for the acquisition of such services regardless of the source of funds used to acquire them; and**
- **recover any funding provided to transfer-payment agencies that relates to GST that they were not required to pay.**

Ministry Response

We agree with this recommendation. For the Job Connect system, the process undertaken in 2001/02 incorporated more prudent controls and processes for the acquisition of such services for 2002/03. The budget awarded to the successful bid is very comparable to systems development and support costs in the previous contracts and was identified by the Ministry's Information Technology Branch as meeting a standard of value for systems development.

For the Literacy and Basic Skills (LBS) system, all subsequent systems development work will be fully scoped and tendered by the third-party service agency.

The Job Connect information system supports the delivery of consistently high-quality services to individuals and employers across the province. It provides delivery sites with the agency-level program data they need to plan, evaluate, and adjust services to improve customer service in their communities. The LBS system is expected to provide similar benefits when completed.

The data on individuals and employers, services provided, outcomes achieved, customer satisfaction, and costs supports the Ministry's ability to evaluate program policy and design in relation to its core business and strategic objectives. The systems also provide standardized, province-wide reporting mechanisms that allow the Ministry to manage the performance of funded agencies and to report program results effectively.

A request for proposal (RFP) was not conducted for the delivery of coaching and other training services. The consulting firm that provided the coaching and training services was recommended by an advisory group representing the Job Connect delivery network based on their evaluation of an initial coaching and training project undertaken by the not-for-profit sectoral agency.

The agency has been notified that an RFP must be conducted for network coaching or training development projects identified by the advisory group for 2003/04.

The Ministry had already taken steps to recover GST that the not-for-profit agency was not required to pay. The Ministry will also ensure that GST is appropriately funded in future projects of similar scope and size. In addition, the Ministry will explore the implications of and options for developing policies/procedures related to the recovery of GST spent in the delivery of program services.

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CHAPTER FOUR

Follow-up of Recommendations in the *Special Report on Accountability and Value for Money* (2000)

It is our practice to make specific recommendations in our value-for-money (VFM) audit reports and ask ministries and agencies to provide a written commitment to take corrective action for publication in Chapter Three of our Annual Report. Two years after we publish the recommendations and related responses, we follow up on the status of actions taken by ministries and agencies with respect to our recommendations.

Chapter Four provides some background on the value-for-money audits reported on in Chapter Three of our *Special Report on Accountability and Value for Money* (2000) and describes the current status of corrective action that has been taken to address our recommendations since that time. The sections in this chapter consist of follow-up reviews.

Our follow-up reviews are planned and conducted to provide a moderate level of assurance on the extent and adequacy of corrective actions taken by ministries or agencies. The reviews consist primarily of inquiries and discussions with management; analyses of information they provide; and, where deemed appropriate, limited examination and testing of systems, procedures, and transactions. This is not an audit, and accordingly, we cannot provide a high level of assurance that the corrective actions described have been implemented effectively to fully resolve noted problems. Where these reviews identify new issues or concerns that need to be acted upon, these issues will be considered in our audit planning process. In any event, the results of the corrective actions taken or planned will be more fully examined and reported on through future audits.

Overall, we concluded that a number of our 2000 recommendations appear to have been fully or substantially acted upon. However, there are many recommendations where action remains to be taken or is ongoing.

MINISTRY OF AGRICULTURE AND FOOD

4.01–AgriCorp

(Follow-up to VFM Section 3.01, *Special Report on Accountability and Value for Money—2000*)

BACKGROUND

Established by the *AgriCorp Act*, 1996, AgriCorp's primary business is to administer insurance plans for the agriculture and food industry. At the end of the 2001/02 fiscal year, AgriCorp held assets totalling $413 million in its General Fund, Crop Insurance Fund, and Market Revenue Program fund. At the end of the 1999/2000 fiscal year, assets totalled $604 million. In 2001/02, AgriCorp's General Fund paid administrative expenditures totalling over $12.2 million. In 1999/2000, it had paid $16 million. During 2001/02, the other two funds paid $322 million to compensate Ontario farmers for losses from reduced crop yields and low market prices. In 1999/2000, the two funds paid $180 million.

In 2000, we concluded that AgriCorp did not have adequate procedures in place to ensure that its activities complied with legislation and corporate policies. In addition, AgriCorp failed to manage certain of its resources with due regard for economy and efficiency and, on a number of occasions, failed to safeguard the resources entrusted to it. Also, AgriCorp did not have the necessary governance and accountability procedures in place to ensure that the Corporation was well managed or to provide the information required to measure and report on its effectiveness.

Some of our specific findings in 2000 were:

- Inappropriately utilizing ministry funds, AgriCorp lost $325,000 in a speculative investment initiative to buy and sell bonds on a daily basis. AgriCorp also violated its fiduciary responsibility by attempting to transfer the loss to the Ontario Crop Insurance Fund. We had to intervene to reverse this transfer.
- Contrary to legislation, on several occasions AgriCorp sought to remove money from the Ontario Crop Insurance Fund to pay for its administrative expenses. We had to intervene to ensure the Fund remained intact.
- Without a proper business case and without tender, AgriCorp engaged an intermediary to place $14.5 million of reinsurance coverage with private insurance companies.
- AgriCorp received little or no value for the $3 million it spent on information technology development projects that were poorly planned, controlled, and managed. In addition, information technology consultants were engaged without competition and provided with training at taxpayers' expense, and several consultants were retained for periods ranging from five to 13 years at rates of up to $640 per day.

- AgriCorp engaged an investment advisor for a minimum annual fee of $400,000 without competition. The advice received was of little value as the advisor repeatedly recommended investments to AgriCorp that were contrary to its legislation.

Accordingly, we made a number of recommendations to improve the management and governance of AgriCorp and received commitments from AgriCorp and the Ministry that they would take corrective action.

CURRENT STATUS OF RECOMMENDATIONS

According to information received from AgriCorp, action has been taken on all of the recommendations made in our *Special Report on Accountability and Value for Money* (2000). The current status of each of our recommendations is outlined below.

COMPLIANCE WITH LEGISLATION AND CORPORATE PROCEDURES

Investments

Recommendation

To ensure that proper controls are in place to safeguard investments, AgriCorp should:

- *engage only in investment strategies that comply with corporate policies and the requirements of formal agreements; and*
- *establish and ensure compliance with appropriate procedures to monitor investment activities.*

Current Status

AgriCorp informed us that losses noted in our *Special Report* (2000) have been repaid to the Corporation's General Fund. Also, the board of directors has approved new investment policies for both the General Fund and Crop Insurance Fund that comply with the *AgriCorp Act*, 1996. In addition, since October 2000, the Corporation has retained an external accounting firm that performs quarterly reviews of investment activities to determine compliance with the Corporation's investment policies and reports directly to the board.

Fund Administration

Recommendation

To ensure the integrity of all funds under its stewardship and to ensure that no fund benefits at the expense of another, AgriCorp should:

- *ensure that the Corporation's activities are legislatively sound;*

- *implement policies for interfund transactions, including the payment of fair rates of interest on any interfund loans; and*
- *review administrative funding arrangements to properly deal with funding pressures.*

Current Status

We were informed that, during 2000, AgriCorp transferred $2.1 million, plus interest, from its General Fund to the Crop Insurance Fund. This transfer represents a repayment to the Crop Insurance Fund for monies that had been used to pay for administrative expenses. Such expenses, it was determined, should have been paid from the General Fund. Also, in April 2001, the board of directors approved a policy with respect to interfund loans whereby a loan agreement would be drawn up for such loans. This would include identification of the lending and borrowing funds, the amount, interest rate, and repayment schedule.

With respect to administrative funding arrangements to deal with funding pressures, in accordance with a new Memorandum of Understanding, the Corporation will negotiate with the Ministry of Agriculture and Food for any additional funding required on a case-by-case basis.

Insurance Claims

Recommendation

To ensure that the proper indemnity payments are made in compliance with legislation and corporate policy, AgriCorp should:

- *manage the Optional Unit Coverage Program to ensure that there is no additional risk exposure to the Ontario Crop Insurance Fund;*
- *equitably enforce the deadline dates for insurance applications and premium payments on all crops;*
- *direct insurance adjusters to measure the acreage related to any claim for crop loss or damage; and*
- *reassess procedures as necessary so that indemnities are paid only when actual yields are less than guaranteed yields.*

Current Status

The Optional Unit Coverage program will continue to be offered on a pilot basis with the current program covering the 2002 crop year. AgriCorp informed us that an additional deductible—based on the number of units insured—has been implemented to reflect the increased level of risk for this program.

In addition, AgriCorp informed us that it will continue to allow premium payments to be remitted after the harvest under third-party agreements because the premiums are guaranteed by the third party and producers cannot opt out of the program once they have enrolled. Indemnity payments are made only after AgriCorp has received the insurance premium.

To help insurance adjusters track crop yields and damage claims, AgriCorp informed us that it started using a geographic information system to evaluate 2001 crop losses. The Corporation will use this system to compare crop yields in a geographic area and investigate those that are not in line with the effects of weather events and adjacent farms in the area.

AgriCorp implemented a pilot project in 2000 to test an alternative method of insuring forage crops based on a model that compares in-year rainfall to historic levels of rainfall to corroborate yield estimation. The pilot is being evaluated to determine the accuracy of the insurance coverage provided, the cost of administration, and customer acceptance.

DUE REGARD FOR ECONOMY AND EFFICIENCY

Information Technology Management

Recommendation

To ensure that information technology project management results in the effective execution of plans and achieves results economically, AgriCorp should:

- *develop a long-term strategic plan for information technology that reflects the operational needs of the Corporation;*
- *prepare a proper business case for all potential systems development projects, including an assessment of corporate needs, options available and a detailed cost/benefit analysis of each option;*
- *before proceeding with any systems development project, develop and receive board approval for a project plan outlining project deliverables and the nature and timing of milestones to be achieved;*
- *establish a rigorous monitoring program to ensure the achievement of milestones and the satisfactory completion of all systems development projects; and*
- *thoroughly evaluate any new software applications before purchasing them to ensure that they meet corporate needs and can be implemented.*

Current Status

In March 2001, the board of directors approved a three-year strategic plan that included, as a core element, strategic objectives for information technology. All major information technology purchases now require a business case that includes an assessment of corporate needs and available options and a cost/benefit analysis. In addition, the board of directors must now approve all purchases in excess of $100,000.

As well, the Corporation has adopted systems development guidelines to help manage and monitor its information technology projects. AgriCorp informed us that project control, reporting, and evaluation criteria will be part of the new methodology to help ensure that milestones are achieved and that systems development projects are completed.

Consulting Services

Recommendation

To obtain value for funds expended on consultants, AgriCorp should ensure that:

- *consultants are engaged and contracts are renewed through a competitive process and any exceptions are adequately justified, documented, and approved;*
- *consultants are not used to perform work other than that specified in their contracts;*
- *consultants have the necessary skills to carry out their work assignments and not be trained at taxpayers' expense; and*
- *assignments are formally evaluated upon completion.*

Current Status

We were informed that the Corporation now follows a competitive process whenever consulting services are required. AgriCorp has also reduced its reliance on information technology consultants and is developing expertise internally. The Corporation has retained one long-term consultant because of the need for specific programming knowledge that is not readily available in the industry. However, the Corporation indicated that this contract would not be renewed after June 2002. In addition, in future, consultants will be responsible for their own training costs and all consultants will be formally evaluated at the completion of each assignment to assess their performance and qualification for future assignments.

Investment Services

Recommendation

To ensure that necessary investment services are acquired economically, AgriCorp should:

- *assess the need for an investment advisor;*
- *acquire investment services through an open and competitive process;*
- *obtain legal advice regarding the terms and conditions of all major contracts; and*
- *consider obtaining investment advice from within the government.*

Current Status

AgriCorp informed us that they did not renew the contract with their investment advisor when it expired on December 31, 2000, and the Corporation now makes investment decisions in-house. In addition, AgriCorp is seeking investment advice, when needed, from the Ontario Financing Authority.

Reinsurance Coverage

Recommendation

To ensure that both its current reinsurance program and any future reinsurance arrangements are economical and appropriate, AgriCorp should:

- *determine whether the reinsurance program has resulted in any direct rate reduction to premiums or increase to investment yields;*
- *consider obtaining expert advice to review the current arrangements and potential options;*
- *prepare a business case for reinsurance that quantifies expected costs and benefits;*
- *acquire any future reinsurance through a fair, transparent, competitive process; and*
- *obtain board approval prior to entering into any future reinsurance arrangements.*

Current Status

AgriCorp now prepares a business case for reinsurance coverage each year that includes an analysis of the costs and benefits, the effect on premiums, and alternatives. The board of directors is required to review and approve the business case before a competitive process is undertaken for reinsurance coverage. AgriCorp also informed us that it has retained an actuarial firm to design and certify a rate-setting methodology that will ensure the sustainability of the Crop Insurance Fund and stabilize premium rates over time.

Travel Expenditures

Recommendation

To ensure that employees are properly reimbursed only for work-related expenditures, AgriCorp should:

- *not reimburse employees for expenses that are of questionable business legitimacy;*
- *develop clear guidelines outlining when the extension of hospitality at the Corporation's expense is appropriate;*
- *reimburse only those claims for reimbursement that are accompanied by proper documentation; and*
- *ensure that managers approve only travel expense claims that comply with corporate procedures.*

Current Status

We were informed that new procedures have been put in place for approving and processing travel claims. A new policy for extending hospitality has also been adopted to define what expenditures are permitted and reasonable in a business context.

Purchasing

Recommendation

To ensure the economic purchase of goods, AgriCorp should purchase all goods through the purchasing department unless the use of petty cash or employee travel expense claims is justified.

Current Status

AgriCorp informed us that it reinforced its purchasing policies and procedures with staff and clarified the appropriate use of petty cash and employee travel expense claims for the purchase of goods and services.

Management of Movable Assets

Recommendation

To properly control and safeguard its movable assets from loss, AgriCorp should:

- *continually update its asset inventory list to ensure that the list reflects all purchases, disposals and reassignments of movable assets;*
- *perform a periodic asset verification to identify discrepancies for subsequent follow-up and resolution; and*
- *implement a termination checklist to ensure assets are retrieved from departing employees and consultants.*

Current Status

AgriCorp indicated that it now maintains an up-to-date asset listing and will implement a process to perform periodic verifications of computer hardware, furniture, fixtures, and other assets. We were also informed that for the 2002/03 fiscal year, a revised termination checklist will be prepared and new procedures will be developed to ensure that all assets are returned when an employee leaves the Corporation.

MEASURING AND REPORTING ON EFFECTIVENESS

Program Effectiveness

Recommendation

To ensure that it is effective in meeting its legislated objectives, AgriCorp should:

- *establish a clear vision statement that reflects its legislated objectives;*
- *develop performance measures that are linked to its established vision and objectives; and*
- *perform the assessments necessary to determine whether its operations are achieving its established vision and related objectives.*

Current Status

A review of AgriCorp's mandate was undertaken in October 2000 and a three-year business plan was approved in March 2001. The business plan for the fiscal years 2001/02 to 2003/04 outlines AgriCorp's mandate as specified in legislation, and the corporate mission statement clearly spells out the responsibilities and priorities of the Corporation.

Through the business planning process for the 2002/03 fiscal year, AgriCorp plans to develop one-year performance measures that are specific, measurable, and timely. AgriCorp intends to seek input and agreement from the Ministry in developing and finalizing these measures. In addition, AgriCorp's CEO and the Deputy Minister now meet quarterly to assess the Corporation's progress toward meeting its business plan objectives. Monthly meetings between corporate and ministry staff have been initiated to discuss ongoing policy and operational issues and to review AgriCorp's performance.

Corporate Governance

Recommendation

To improve corporate governance, AgriCorp should:

- *review the board [of directors] and its committee structure and establish clear lines of communication and accountability;*
- *ensure that management provides timely, sufficient, and appropriate information for decision-making; and*
- *periodically assess the effectiveness of the board with respect to governance and the attainment of corporate objectives.*

Current Status

AgriCorp informed us that, in order to improve corporate governance and establish clear lines of communication and accountability, the board of directors was restructured in June 2000. This restructuring resulted in a single, 12-member board structure, as opposed to the previous dual board structure. The Corporation also established two standing board committees with clearly defined roles and responsibilities—the Executive Committee and the Crop Insurance Committee.

In November 2001, a new Memorandum of Understanding between AgriCorp and the Ministry was put in place detailing the responsibilities of the chief executive officer to the board of directors, its chair, and the Deputy Minister. In addition, the Ministry or the Management Board of Cabinet may initiate periodic reviews of the Corporation, which would include reviews of the roles of the chair and Deputy Minister, the mandate of the Corporation, and its organizational structure.

MINISTRY RESPONSIBILITY

Recommendation

To help ensure that AgriCorp is effectively fulfilling its mandate and that its operations are economic, efficient and in accordance with legislation, the Ministry should:

- *update its Memorandum of Understanding with the Corporation to include any new monitoring procedures and Management Board of Cabinet requirements;*
- *outline specific roles and responsibilities for the ministry representative on the board of directors;*
- *develop and implement procedures to more effectively monitor the activities of the corporation; and*
- *implement a periodic internal audit process to provide assurance that the Corporation fulfills its financial arrangements stipulated in the Memorandum of Understanding.*

Current Status

In November 2001, AgriCorp signed a new Memorandum of Understanding with the Ministry that outlines the responsibilities of the Ministry and the Corporation as well as the ministry representative on the board of directors. One of the responsibilities of the Ministry representative is to perform an overall monitoring function of the Corporation and to provide the Deputy Minister with quarterly reports containing an overview of the Board's decisions and summaries of financial and administrative matters to help the Minister determine whether AgriCorp is fulfilling its mandate. In addition, the Memorandum requires that the Ministry's Internal Audit Branch periodically carry out audits of the activities of the Corporation.

MINISTRY OF COMMUNITY, FAMILY AND CHILDREN'S SERVICES

4.02–Child Welfare Services Program

(Follow-up to VFM Section 3.02, *Special Report on Accountability and Value for Money*—2000)

BACKGROUND

The Ministry (at the time of our audit named the Ministry of Community and Social Services) is responsible for setting expectations for child welfare services through legislation and regulations, as well as for funding and monitoring services provided by Children's Aid Societies (Societies) and taking corrective action where necessary. Services provided by the Societies include: investigating and assessing child abuse and neglect allegations, as well as providing counselling, guardianship, and many other types of services that protect children from neglect and physical, sexual, and emotional abuse.

Program expenditures for the year ended March 31, 2002 were $879 million, $864 million of which was for transfer payments to the Societies. Program expenditures during 1999/2000 totalled approximately $654 million, of which $642 million was for transfer payments to the Societies. The Ministry estimated that 154,000 children from 86,000 families received some type of service from a Society during the fiscal year ending March 31, 2000.

Our principal conclusion in 2000 was that the Ministry did not have sufficient assurance that children in need were adequately protected because:

- Societies could not always demonstrate that they conducted their assessments of children reported to be in need;
- not all plans of service, which outline the actions that need to be taken to protect a child, were prepared or implemented on a timely basis by the Societies; and
- program outcome measures had not been developed and implemented.

We also concluded that the Ministry's new funding framework, which was to be fully implemented in the 2000/01 fiscal year, is a substantial improvement over the Ministry's previous method of determining the Societies' program funding. However, the Ministry will not realize the full benefits of the new funding framework until direct and indirect service costs to be funded are linked to the nature and assessed cost of the underlying services to be received.

We made recommendations to overcome these deficiencies, and the Ministry responded to our recommendations with commitments to take corrective action.

CURRENT STATUS OF RECOMMENDATIONS

The Ministry is in the process of acting on many of our recommendations as detailed below.

CASE MANAGEMENT

Eligibility for Protection Services and the Protection Investigation

Recommendation

To help ensure that children reported to be at risk receive the appropriate protection in compliance with the Risk Assessment Model for Child Protection in Ontario, the Ministry should:

- *conduct periodic file reviews to assess compliance with case management standards in general and the Risk Assessment Model in particular; and*
- *identify instances of non-compliance and ensure that the necessary corrective actions are taken on a timely basis.*

Current Status

The Ministry developed a case-monitoring tool in December 2000 and conducted pilot reviews of a sample of child protection files from 13 Children's Aid Societies between April and June of 2001. The resulting report, dated October 2001, identified areas where further improvement was required to achieve compliance with the Standards for Child Protection Cases, including the risk assessment model, and also identified the need for changes to the Standards for Child Protection Cases.

Subsequent to these pilot reviews, the Ministry planned to conduct child protection reviews in all Children's Aid Societies in 2002. Reviews commenced at two Societies in the first three months of 2002, but a labour strike in the Ontario government put further reviews on hold. The Ministry plans to resume these reviews at the remaining Societies commencing in October 2002.

Protective Services and Plans of Service

Recommendation

To help ensure that minimum service expectations for all child protection cases are met, the Ministry should monitor the Societies to make sure that:

- *services for children determined to be in need of protection commence within the required 30 days of the initial referral; and*
- *plans of service for these children are prepared and approved by a supervisor within 60 days, as required.*

Current Status

The previously mentioned ministry pilot reviews identified a continuing need for better compliance to ensure that services for children determined to be in need of protection commence within the required 30 days of the initial referral and that the plans of service for these children are prepared and approved by a supervisor within 60 days, as required.

As already noted, the Ministry is planning to conduct child protection reviews in all Children's Aid Societies commencing in October 2002 to determine compliance with all requirements of the Standards for Child Protection Cases.

Children in Residential Care—Crown Ward Reviews

Recommendation

To help ensure that services provided to Crown wards are appropriate and in compliance with regulatory requirements, the Ministry should:

- *issue directives in all instances where program regulations have not been complied with; and*
- *monitor Children's Aid Societies to ensure they act on all directives and confirm compliance with the directive to the Ministry within 60 days, as required.*

Current Status

We were advised that the Ministry re-emphasized the need to issue directives for all instances where there is non-compliance with program regulations. In addition, the Ministry has developed and implemented an automated bring-forward system that provides prompt follow-up to ensure that Societies now act on directives issued within the required 60 days.

A review by Internal Audit of a sample of Crown ward files found that the follow-up reports to the Ministry were generally issued within the required 60 days. However, the follow-up reports often did not provide specific action to address the concerns identified. There was also often no evidence of ministry review of the appropriateness of the responses provided by the Societies.

Children in Residential Care—Non-Crown Ward Reviews

Recommendation

To help ensure that protective services provided to non-Crown wards are appropriate and in compliance with program requirements, the Ministry should:

- *implement a regular review process for non-Crown ward files; and*
- *ensure instances of non-compliance with program requirements are communicated to the Children's Aid Society and, where required, acted upon on a timely basis.*

Current Status

The Ministry has substantially addressed this recommendation. The Ministry's monitoring process for non-Crown ward cases was implemented in 2001, in which the Ministry now conducts annual reviews on a sample of non-Crown wards. The Ministry has issued guidelines for these reviews, as well as guidelines for issuing directives when the reviews identify non-compliance with legislative and regulatory requirements. Societies are required to report corrective action to the Ministry within 60 days.

A review by Internal Audit of a sample of non-Crown ward files identified that directives were issued for areas of non-compliance.

Extended Care and Maintenance Agreements

Recommendation

To help ensure the successful transition of Crown wards to independent living, the Ministry should ensure that:

- *Children's Aid Societies regularly monitor youths who have extended care and maintenance agreements, as required by their agreements, and assess compliance with their personal goals; and*
- *where the requirements of the agreements are not met, corrective action is taken by the Societies on a timely basis.*

Current Status

The Ministry indicated that it considers the current accountability practices by regional offices to be sufficient to monitor the Societies' practices with respect to the extended care and maintenance agreements of former Crown wards. As a result, the Ministry has not made any progress on this recommendation.

Licensing of Children's Residences

Recommendation

To encourage residential care operators to provide minimum acceptable standards of care to children, the Ministry should conduct and document licensing inspections and renew licenses on a more timely basis.

Current Status

The Ministry has implemented a licensing module into its Service Management Information System and intends to monitor the licensing review and renewal data through the system annually.

Serious Occurrences

Recommendation

To help safeguard children in care and gain assurance that all serious occurrences are appropriately dealt with, the Ministry should take the necessary steps to ensure that:

- *an initial notification report is prepared for every serious occurrence reported; and*
- *written follow-up reports from the Societies are evaluated to determine whether appropriate actions have been taken.*

Current Status

The Ministry has made substantial progress in implementing this recommendation. The Ministry sent out revised standards and guidelines for reporting serious occurrences in July 2000. These guidelines require that Societies inform regional offices of a serious occurrence within 24 hours, and the occurrence must be followed up with a written report within seven working days. Annual summaries and reports of analyses are also now prepared by the Societies and submitted to the regional offices.

FINANCIAL ACCOUNTABILITY

Funding Framework

Recommendation

To ensure that funding provided to Societies under the new funding framework is appropriate for them to deliver the required services, the Ministry should ensure that:

- *residential care per diems are based on an assessment of what reasonable costs should be for each type and category of care;*
- *direct service cost funding is based on a ministry review and assessment of the underlying work performed;*
- *funding for indirect service costs is reasonable and appropriate for each Society; and*
- *revenue benchmarks are reasonable and attainable.*

Current Status

The Ministry conducted an interim review of the benchmarks and design elements of the Child Welfare Funding Framework in 2000. Based on the results of this review, the Ministry revised the benchmarks used in the funding framework for 2000/01 for group care costs and revenue earned.

In the Fall of 2001, the Ministry completed a more comprehensive review resulting in a number of draft recommendations for changes to the funding framework designed to ensure flexibility in providing the most appropriate services, contain costs, and reduce inequities across agencies.

Service and Financial Data Review

Recommendation

In order to maintain the integrity of the Ministry's new funding framework, which is primarily based on caseload volume data, the Ministry should:

- *establish ongoing requirements for and conduct regular Children's Aid Society caseload data reviews; and*
- *adopt appropriate policies and procedures for such reviews.*

Current Status

Regional offices are now instructed to conduct caseload data reviews for all Societies at least once a year, regardless of volume, by May/June of each year.

The Ministry has developed and implemented the use of detailed checklists and questionnaires for these reviews. The reviews include an examination of a sample of case files in the non-residential and residential categories, as well as interviews with key management and financial staff. Concerns identified are to be monitored for corrective action where required.

Quarterly Reporting

Recommendation

In order to ensure the timely identification, analysis, and follow-up of significant in-year variances in expenditure and caseload data, the Ministry should:

- *obtain the required quarterly report variance analysis on a timely basis and in sufficient detail, including the necessary explanations and corrective actions; and*
- *clearly document its process for reviewing variances and, if necessary, approving the appropriate corrective actions.*

Current Status

In 2000/01, Societies provided the Ministry with the first annual Service Management Plan, which included expenditure forecasts. The Societies are now instructed to submit quarterly reporting packages that capture detailed service and financial data that are to be reviewed by the Ministry and compared to the Service Management Plan.

Annual Program Expenditure Reconciliation

Recommendation

To ensure that it identifies and recovers ineligible expenditures and surplus funding, if any, the Ministry should:

- *receive, review, and approve all Annual Program Expenditure Reconciliation on a timely basis; and*
- *ensure that Annual Program Expenditure Reconciliations and accompanying audited financial statements contain sufficiently detailed and comparable information to identify ineligible expenditures or surplus funding.*

Current Status

The Ministry advised us that it has developed and implemented a revised fourth-quarter year-to-date and year-end Reconciliation Report that incorporates the Annual Program Expenditure Reconciliation.

OTHER MATTER

Information Systems

Recommendation

In order to facilitate the collection and analysis of performance data necessary to effectively administer the Child Welfare Services program, the Ministry should expedite the development of its proposed management information system.

Current Status

The Ministry has implemented the Fast Track Information System in all Societies for tracking high-risk families.

The Ministry also plans to collect outcome and performance data on 10 key Child Welfare indicators and is to build these into a Comprehensive Child Welfare Information System to be developed at a later stage. The Ministry is currently working on a pilot project to collect data on three of these ten indicators. The Ministry plans to implement regular reporting requirements to collect all outcome data beginning in 2002/03.

MINISTRY OF CONSUMER AND BUSINESS SERVICES

4.03–Project to Automate the Land Registration System (POLARIS)

(Follow-up to VFM Section 3.03, *Special Report on Accountability and Value for Money*—2000)

BACKGROUND

In 1980, the Ministry (at the time of our audit named the Ministry of Consumer and Commercial Relations, but since renamed the Ministry of Consumer and Business Services) established POLARIS (Province of Ontario Land Registration System) to automate the province's land registration system. The project involves the conversion and automation of paper-based records to permit the searching and registration through computers of real property documents. In 1991, the Ministry transferred ownership and responsibility for the implementation and operation of POLARIS to Teranet Land Information Services Inc., since renamed Teranet Inc. (Teranet), a corporation owned jointly by the province, with 40% of the voting shares, and a private-sector company, with 60% of the voting shares. As of March 31, 2000, approximately 2.5 million of the estimated 4.3 million properties in the province had been fully converted to electronic format.

Teranet receives fees collected by the Ministry out of the Consolidated Revenue Fund for certain land-registration-related services that the Ministry processes using POLARIS. In addition, Teranet receives fees directly for land-registration-related services provided remotely. In return, the Ministry receives royalties from Teranet. From Teranet's inception in 1991 to March 31, 2000, Teranet received $235 million from land-registrated-related service fees, of which Teranet had paid back $45 million in royalties to the Ministry.

During our review, we identified a number of significant concerns with the Ministry's arrangement with Teranet and the status of its project to automate the province's land registration system, including:

- In 1991, the POLARIS project had an anticipated 1999 completion date, but at the time of our review, ministry information received from Teranet indicated a 2010 project completion date.
- Cost estimates to complete the project had substantially increased from the original 1991 estimate of $275 million. As of April 1999, Teranet estimated that total costs for the project would be more than $700 million—an estimate based on Teranet's assumption that certain cost-saving methods could be implemented. A consultant engaged by the Ministry to provide advice on the Ministry's financial risk with respect to the project noted that under other less favourable scenarios, the total project costs could exceed $1 billion.

- The consultant also noted that the cost to convert the remaining 1.8 million properties using existing workflows and processes exceeds the anticipated revenues from conversions.
- There is a risk that if the Ministry were required to terminate its agreement with Teranet and assume operation and control of the POLARIS project, it would have to address Teranet's $280-million obligation to its bondholders. As well, the Ministry may have to compensate Teranet for all or part of the $300 million in costs Teranet has incurred.

At the time, the Ministry advised us that it had not agreed to changes to the contractual obligations of Teranet for completing the project and that it was in the process of deciding on an appropriate course of action.

In 2002, POLARIS was renamed the Electronic Land Registration System (ELRS).

CURRENT STATUS

Based on information we received from the Ministry during our follow-up in April 2002, the Ministry had renegotiated its arrangements with Teranet to address concerns regarding the project's costs and completion date. The project is now estimated to cost $680 million, its completion date is expected to be September 2007, and its scope has been reduced such that only 87% of all properties are to be fully converted and automated.

Comparison of Original POLARIS and Current ELRS Project Plans

	Under Original Plan (1991)	Under Renegotiated Plan (2002)
Implementation costs	$275 million	$680 million
Completion date	1999	2007
Percentage of properties to be converted and automated	100%	87%

Source of data: Ministry of Consumer and Business Services

After an extensive negotiation process, in March 2002 the Ministry and Teranet entered into new agreements, which entail major changes to the Ministry's old arrangements with Teranet and include the following:

- Teranet is required to substantially complete the conversion and automation process by September 2007. The project's completion has been redefined from converting and automating 100% of properties in the province to converting and automating about 87% of properties; the agreements require that the 87% of properties include all properties in communities with a population of 5,000 or more. The revised estimated number of properties in the province as of July 1, 2001 was 4.7 million, and 4.1 million

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of these properties were expected to be fully converted under the reduced project scope by the new completion date. As of March 31, 2002, approximately 3 million properties had been fully converted and automated, leaving 1.1 million properties remaining to be converted and automated.

- The new implementation plan, which forms part of the revised agreements, summarizes previous actual costs and expected future costs for the completion of the project as follows:

Incurred POLARIS and Expected ELRS Project Implementation Costs

	($ million)
Costs incurred from 1991 to March 31, 2002:	
Direct implementation costs	333
Interest and depreciation costs	58
Total	**391**
Expected costs from April 1, 2002 to September 2007:	
Direct implementation costs	214
Interest and depreciation costs	75
Total	**289**
Total expected project cost (1991 to 2007)	**680**

Source of data: Ministry of Consumer and Business Services

- The completion date and costs and revenues are at risk if the assumptions on which the implementation plan is based do not prove to be correct. Under the new arrangements, a joint committee is to be established to monitor the progress of actual implementation against the implementation plan. Teranet is required to report quarterly to the committee on its costs, efforts, and progress, as well as how real estate market activity, which can impact the conversion timetable, compare to assumptions in the implementation plan. Should a substantial variance occur over several quarters, the committee may investigate the cause of the variance and make recommendations for corrective action. However, Cabinet authority is required to adjust the total cost of implementation or extend the completion date.
- Teranet, which holds a conditional, exclusive licence for providing automated land registration services, receives fees collected by the Ministry for basic services that are processed using ELRS such as registrations and certain ancillary transactions. In 2017, the exclusive licence is expected to end. The Ministry estimates that Teranet will have received almost $2 billion in fees for basic ELRS services up to 2017. In addition, it is estimated that Teranet's other land-registration-related revenues over this period, such as fees charged for remote access to ELRS and other premium services, will total about

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$1 billion. In consideration of Teranet's estimated revenues up to 2017, the Ministry forecasts it will receive $466 million in royalties from Teranet over the same period. Teranet is not expected to pay any dividends to its shareholders during this period.

The following table summarizes Teranet's actual and expected revenues and expenditures for its core business related to land registration services from its inception to 2017, when its conditional exclusive licence is expected to end.

Teranet's Actual and Expected Core Business Revenues and Expenditures for Land Registration Services, 1991–2017

	($ million)
Revenues	
Fees paid either from the Consolidated Revenue Fund or directly to Teranet for basic registration services using POLARIS/ELRS (land title registrations, searches, certain ancillary fees)	1,976
Fees paid directly to Teranet for premium services (remote access, maps)	498
Fees paid either from the Consolidated Revenue Fund or directly to Teranet for execution of writs searches	521
Total Revenues	**2,995**
Expenditures	
POLARIS/ELRS project implementation costs	680
Investment in system development	160
Investment in capital	124
Operations	319
Marketing	201
Royalties to the Ministry of Consumer and Business Services	466
Other	308
Interest and taxes	362
Total Expenditures	**2,620**
Net Revenues	**375**

Source of data: Ministry of Consumer and Business Services

- The new agreements further clarify the Ministry's rights should Teranet become insolvent or default on its obligations. If Teranet should, for example, fail to provide a minimum production capacity or willfully fail to perform according to the implementation plan (in the absence of extenuating circumstances such as the incurring of a significant operational cash deficit or an economic downturn), an arbitrator may determine that termination of the agreements is necessary. In that case, the new agreements detail the Ministry's right to assume uninterrupted operation and control of ELRS. A transition period would be required, during which Teranet or its trustee would be required to ensure continuity of basic services until a successor service provider was established.

The new agreements also require that a transition plan be developed and approved by a joint committee before March 31, 2003. The transition plan is to allow for, if necessary, the orderly transfer of responsibility for the operation and control of the basic ELRS system and components from Teranet to a new service provider. The plan is required to be reviewed annually by the joint committee.

- The Ministry also negotiated improvements in the areas of information privacy, system performance and disaster recovery, land registration information quality, liability for errors, and control over setting fees for the use of ELRS for basic services.

MINISTRY OF PUBLIC SAFETY AND SECURITY

4.04–Institutional Services and Young Offender Operations

(Follow-up to VFM Section 3.04, *Special Report on Accountability and Value for Money*—2000)

BACKGROUND

Since our *Special Report on Accountability and Value for Money* (2000), the Ministry of Correctional Services was consolidated with the Ministry of the Solicitor General in April 2002 to form the Ministry of Public Safety and Security. Institutional Services and Young Offender Operations (Institutional Services), which we audited in 2000, now falls under the responsibility of this new Ministry.

Institutional Services is responsible for the operation of Ontario's correctional institutions. These institutions provide custody for adult offenders sentenced to terms of up to two years less a day and for accused persons on remand awaiting trial. They also provide custody for young offenders between 16 and 17 years of age at the time of their offences.

For 2001/02, institutional services for adults and young offenders had operating expenditures of approximately $500 million. In 1999/2000, operating expenditures were about $463 million and there were about 6,200 staff. In the same year, on a daily basis, there were approximately 7,400 adult and 700 young offenders in 47 correctional institutions.

In 2000, we concluded that in the process of implementing an infrastructure renewal project with estimated capital costs of over $270 million, the Ministry had not properly assessed the viability of alternative service delivery options to ensure best value to taxpayers. In that regard, we found that:

- The Ministry's decision to finance and build two 1,200-bed correctional institutions at a cost of $180 million was not supported by a comprehensive business case assessing the risks, costs, and benefits of all relevant alternatives.
- A proper business case and cost-benefit analysis were not done for building a new cooking facility within a correctional institution under expansion to provide prepared food to a number of correctional institutions. At the completion of our field work, the estimated cost to build the facility had increased from $5 million to $9.5 million. As well, the facility's production capacity would be 1,000 meals a day short of meeting the needs of the correctional institutions to be served.

In addition, despite a decline in average daily inmate count (including both adult and young offenders) since 1995/96, the operating expenditures for Institutional Services between 1995/96 and 1999/2000 had increased 19% from $388 million to $463 million. Specifically, we noted that:

- The number of offenders in the Temporary Absence Program, which is designed to protect society by enabling non-violent offenders to maintain community and family relationships and responsibilities, had declined from 25,000 to 4,000 between 1991/92 and 1998/99. The under-utilization of the community program resulted in the Ministry foregoing significant potential savings of as much as $50 million a year.
- The average number of sick days per correctional officer increased 38% from 12 days in 1995 to 16 days in 1998. Overtime expenditures increased 48% from $11.1 million in 1996/97 to $16.5 million in 1998/99.

We also found that about 60% of the Ministry's 47 correctional institutions had security non-compliance problems that had not been rectified for up to two years.

CURRENT STATUS OF RECOMMENDATIONS

Based on information received from the Ministry of Public Safety and Security, the Ministry has taken action to implement the majority of our recommendations, while action is planned or in progress for the remaining recommendations. The current status of all our recommendations is as follows.

DUE REGARD FOR ECONOMY AND EFFICIENCY

Adult Infrastructure Renewal Project

Recommendation

When evaluating alternative services delivery options, the Ministry should prepare sound business cases, including needs analysis and requirement definitions, to ensure that the option chosen will result in best value to the taxpayers. At the minimum, business cases should include an assessment of:

- *the costs and benefits of all feasible alternatives;*
- *the kind of risks and the level of risks that can be transferred from the province to private-sector partners as well as how such risks should be managed; and*
- *the proper balance between the objectives of the private sector and the interests of the public.*

To ensure realization of anticipated benefits, the Ministry should establish procedures for the proper planning and implementation of the chosen service delivery option.

Current Status

No other similar projects have been approved since March 31, 2000.

Regarding the existing projects, the Ministry has turned over the operating functions of the Central North Correctional Centre in Penetanguishene and the Cook-Chill Food Facility in Maplehurst to private operators. The Ministry informed us that external consultants were hired to ensure the tendering process was fair, open, and transparent.

Privatization of Young Offender Facilities

Recommendation

To ensure proper control over payments to private service providers, the Ministry should more closely monitor the operations and billings of private-sector partners that are providing alternative services to the province.

To better ensure future outsourcing provides value for money, the Ministry should complete its evaluation of the effectiveness of the pilot project before deciding whether more young offender facilities should be turned over to private-sector operators.

Current Status

The Ministry indicated that it has implemented a tracking system to be applied to alternate service delivery initiatives that continuously monitors operations and billings of private-sector partners to ensure they are appropriate.

With respect to pilot projects involving young offenders, an evaluation report prepared by an external consultant in 2002 indicated that Project Turnaround was effective in meeting a number of performance measures, including the lowering of the rate of recidivism of young offenders. The Ministry is reviewing the young offender capital plans and the results of a supply-and-demand analysis for young offender facilities. Private-sector involvement will be reviewed within the context of this review.

Community Programs

Recommendation

To afford non-violent inmates better opportunities for successful reintegration into the community and to reduce institutional expenditures, the Ministry should make more effective use of community programs.

Current Status

The Temporary Absence Program has continued to be underutilized since our last audit report. In January 2002, the Ontario Parole and Earned Release Board was given responsibility for all unescorted temporary absences lasting 72 hours and longer.

By February 2002, the Ministry had hired 165 new probation and parole officers and had issued a request for proposal to expand the Electronic Surveillance Program so that more offenders can be monitored in the community.

The Ministry indicated to us that it was developing better programs to help inmates reintegrate successfully into the community. However, the changes in the Temporary Absence and Electronic Surveillance programs are in the early stages of implementation. Therefore, the Ministry is currently unable to assess the full impact of these changes on inmates' successful reintegration into the community and whether institutional expenditures have actually been reduced.

Staffing—Attendance

Recommendation

The Ministry should strengthen its efforts in monitoring sick leave and, where warranted, take appropriate corrective action to deal with any problems.

Current Status

The Ministry has implemented various guidelines, policies, and procedures to address attendance problems. For example, the Human Resources Branch has been staffed with four case management co-ordinators for attendance management. A local attendance contact position has been established at each correctional institution and probation and parole area for the purpose of co-ordinating the monitoring of attendance.

The Ministry indicated it has reviewed the attendance records of individuals with excessive absenteeism and has taken appropriate action. A comprehensive employment tracking/reporting tool was developed in 2001 and reports on absenteeism are now being compiled on a quarterly basis. The Ministry reported that the average number of sick days per correctional officer decreased from 16 days in 1998 to 14 days in 2001.

Staffing—Overtime

Recommendation

To improve staff attendance and reduce costs, the Ministry should ensure that:

- *actual overtime worked is properly recorded in the attendance management system;*
- *overtime is better tracked and monitored; and*
- *staff with regular hours available are used before overtime hours are assigned.*

Current Status

During 2000 and 2001, the Ministry implemented the Shift Scheduling Administration System (SSAS) to create and maintain rotating shift schedules at correctional institutions. The scheduling system has now been installed in 24 institutions, 10 of which have been using the system since February 2002. The system provides a number of tools to enable management at correctional institutions to schedule staff in a manner that more effectively manages the allotment of overtime hours.

The Ministry has not conducted a formal evaluation of the success of the SSAS in managing overtime. According to the Ministry, it has begun developing a method for evaluating the SSAS.

COMPLIANCE WITH LEGISLATIVE AND MINISTRY REQUIREMENTS

Staff Training

Recommendation

To establish training programs that help to better protect staff and inmates, the Ministry should:

- *provide up-to-date training to all correctional staff; and*
- *maintain current staff training records.*

Current Status

In 2000/01, the Ministry indicated that it had allocated $5 million in new funding for staff training. The Ministry informed us that training for correctional officers and managers is continually being developed and delivered. A number of mandatory training hours for correctional officers are also being provided. In addition, the Ministry advised us that on an ongoing basis new programs are developed to meet the changing needs of correctional officers (courses include, for example, Suicide Awareness and Prevention, Mentally-Ill Offenders, Effective Correctional Communications, and Stress Management and the Correctional Officer).

The Ministry indicated that it has implemented a system that tracks information regarding staff training. This information is updated weekly.

Correctional Programs

Recommendation

To better meet its mandate of protecting society and motivating offenders towards positive personal change, the Ministry should ensure that:

- *the correctional needs of offenders are properly assessed and addressed through the provision of appropriate programs; and*
- *the effectiveness of correctional programs is evaluated in a timely manner.*

Current Status

The Ministry informed us that it is ensuring the correctional needs of offenders are properly assessed and addressed through the provision of appropriate programs. In adult correctional institutions, a comprehensive assessment process is used to identify core offender needs.

Core programs based on empirical research are designed to address such needs to reduce recidivism. Core programs dealing with anger management, anti-criminal thinking, and substance abuse have been developed in order to meet the needs of offenders.

Since our 2000 audit, the Ministry has established a Program Effectiveness Unit to evaluate all core treatment programs and other programs for offenders. The Unit measures both process and outcome and provides continuous feedback to operators and senior decision-makers on the effectiveness of these programs.

Protection and Security Requirements—Critical Incidents

Recommendation

To reduce or prevent critical incidents, the Ministry should more closely monitor the compliance with security measures by its correctional institutions and ensure timely, corrective action in cases of non-compliance.

Current Status

The Ministry has established various other measures to reduce or prevent critical incidents and ensure timely corrective action is taken in cases where security measures are not complied with. Such measures include the establishment of:

- critical incident stress management teams, which educate correctional staff about critical incident stress and appropriate intervention measures;
- institutional security audits;
- security committees at each correctional institution; and
- a database for tracking how the recommendations of a Coroner's jury are responded to in order to identify trends and take corrective action to prevent further incidents.

In addition, the *Corrections Accountability Act, 2000* provides for the establishment of a local Board of Monitors at Ontario correctional facilities. These boards are to strengthen links between the institutions and the local community while ensuring the delivery of adequate services. The board members are to act as independent observers, offering an objective review of the programs for and care and supervision of offenders.

Inmates With Mental Disorders

Recommendation

To better meet the needs of mentally disordered offenders, the Ministry should expedite its efforts to establish treatment facilities and diversion measures for such offenders.

Current Status

The Ministry is in the process of implementing initiatives to restructure correctional institutions that provide specialized services for mentally disordered offenders. The Ministry entered into a partnership with the Royal Ottawa Hospital to operate a new treatment centre in Brockville. According to the Ministry, this two-part project, which is scheduled to be completed in 2004, involves both new construction and renovation of existing buildings and represents a consolidation of existing beds. As well, the Ministry has committed to establishing a 50-bed treatment unit at the new institution in North Bay. However, the contract remains to be tendered.

In spring 2000, the Ministry entered into a partnership with the Centre for Addiction and Mental Health at the Maplehurst Correctional Complex for the shared provision of services to mentally ill female offenders. Ministry staff and external consultants have started developing a document that will outline the programs and services to be offered to female offenders.

The Ministry indicated that it has been working with other justice ministries in developing projects for diverting mentally disordered offenders who are inappropriately incarcerated at correctional institutions to more appropriate facilities.

In addition, the Ministry has entered into partnerships with community agencies in Toronto to provide case management services. Such partnerships involve case managers working with the institution and probation and parole offices to provide assessment, discharge planning, and follow-up of mentally disordered offenders. As well, psychiatric nurses are assigned to work in conjunction with a Ministry of Health community case planner to deliver comprehensive discharge planning services to high-need offenders at one of its jails.

MEASURING AND REPORTING ON EFFECTIVENESS

Recommendation

The Ministry should develop and implement performance measures to assess the effectiveness of Institutional Services in motivating offenders towards positive personal change.

Current Status

In July 2002, the Ministry implemented a new performance framework for all adult correctional institutions, which outlines various outcomes, long-term goals, and key performance indicators. The performance framework is to be used to assess compliance with ministry standards and the extent to which correctional services, including Institutional Services, are achieving their performance objectives.

According to the Ministry, a performance framework for the young offender and community business/operational streams is currently under development, for implementation in 2002/03.

As well, the Ministry has established re-offending baseline rates. For the first time, the province has chosen to use the rate of recidivism (re-offending) to measure performance and report to the public. Using a re-offending tracking system, the province will measure the effectiveness of correctional policies and programs as it relates to the rehabilitation of offenders. Re-offending has been defined as a return to provincial correctional supervision on a subsequent conviction.

MINISTRY OF EDUCATION

4.05–Pupil Transportation Grants to School Boards

(Follow-up to VFM Section 3.05, *Special Report on Accountability and Value for Money*—2000)

BACKGROUND

The transportation of students from home to school and back is a major undertaking as approximately 800,000 students are transported. The Ministry of Education's transportation grants to school boards have increased from $573 million for the 1999/2000 school year to $610 million for the 2001/02 school year and are expected to be about $631 million for the 2002/03 school year.

In 2000, we concluded that the Ministry, which was working towards its five-year plan to revise its funding and accountability relationship with school boards, still had to establish satisfactory systems and procedures to ensure that:

- school boards and the Ministry have the information needed to measure and report on transportation service performance;
- the Ministry has the information needed to establish equitable needs-based funding for these services; and
- the costs to provide transportation services to high-needs students are properly tracked and managed.

We made a number of recommendations for improvement and received commitments from the Ministry that it would take corrective action.

CURRENT STATUS OF RECOMMENDATIONS

The Ministry of Education advised us that it has not fully implemented the recommendations made in our *Special Report on Accountability and Value for Money* (2000), although it has made progress on some of them.

Since our audit, the Ministry has been working to develop the new formula for funding student transportation. Until a new funding formula is implemented, transportation grants will continue to be based on the 1997 transportation expenditures of school boards, with adjustments for changes in enrolment or extraordinary cost increases. Consequently, the funding inequities that existed in 2000 and their impact on the levels of service provided remained in place at the time of this follow-up review.

The current status of each of our recommendations is outlined below.

EFFORTS TO REDUCE TRANSPORTATION COSTS

Recommendation

To help ensure that school boards implement best practices to deliver transportation services as cost effectively as possible, the Ministry should:

- *expedite the development of the new funding formula;*
- *ensure that the new funding formula contains incentives for boards to implement cost-saving measures; and*
- *establish target dates for school boards that have not already done so to either form transportation consortia or submit a business case demonstrating why it would not be beneficial for them to integrate the delivery of their transportation services.*

Current Status

Although adjustments have been made to the funding allocations for individual school boards, the Ministry continues to provide funding based on the funding formula in use in 2000 and does not expect to have a new formula in place until the 2003/04 school year.

The Ministry has been working with a committee that includes school board and school-bus operator personnel to develop a funding formula proposal. The proposed formula involves using transportation-management software qualified by the Ministry to calculate the transportation needs of each board based upon standard service parameters and assuming that boards serving the same area form consortia to jointly deliver transportation services for their students. Such a formula would provide an incentive for boards to form consortia, thus eliminating the need for the Ministry to require that boards prepare business cases or meet target dates as per our recommendation in 2000.

The proposed formula was tested at three boards and five consortia (involving 11 boards). Due to data limitations, such as incomplete student data and digital maps, the Ministry was not able to use the results of these tests to finalize the details of the funding formula. However, the test results did assist the Ministry in identifying problem areas that need to be addressed, and this information will be incorporated into a strategy paper that is to be completed in the fall of 2002.

INFORMATION FOR DECISION-MAKING

Recommendation

To facilitate prudent decision-making and strengthen local accountability, the Ministry should:

- *ensure that boards acquire and utilize information systems that can provide the information needed to enable trustees to make informed decisions about the level of transportation services offered; and*

- *require boards to develop reports that relate costs to level of service in order to ensure that the Ministry and trustees can compare boards to each other and to established benchmarks.*

Current Status

The Ministry does not intend to require boards to develop reports that relate costs to the level of service provided. However, the Ministry has taken the following significant steps to ensure that boards have the ability to provide the Ministry and trustees with this information:

- The Ministry has facilitated the acquisition of appropriate student transportation management software by:
  - managing a request-for-qualification process to evaluate various software products and ensure that those that the Ministry qualified can design cost-effective bus routes and meet the information needs of school boards and the Ministry (five products were qualified for use by school boards); and
  - establishing a $7-million loan program to support school boards in the purchase of qualified software products (at the time of our follow-up review, 66 of the province's 72 school boards had acquired such software).
- The Ministry required that boards complete a survey on key transportation operational data for the 2000/01 school year. Summarized results were posted on a ministry Web site, thus enabling boards to compare their costs and their levels of service with those of other boards. A second survey, revised from the first one to collect more detailed information for the purpose of developing indicators to assist trustees and boards to make informed business decisions, was issued in May 2002. School boards have been advised that completion of this survey will be an annual requirement.

CLARIFYING LEGAL AND POLICY REQUIREMENTS

Recommendation

To help ensure that school boards provide transportation services that meet local needs in an equitable manner and adhere to policy and legal requirements, the Ministry should:

- *provide guidance to boards on the spending and service level information that they should publish in order to facilitate informed public debate among trustees and their community; and*
- *clarify the legal and policy parameters that it expects boards to operate within.*

Current Status

The Ministry does not intend to provide guidance to school boards on the information that they should publish about their own transportation services. However, the Ministry has developed a Web site that contains: policy memoranda; the results of the transportation surveys (including summary reports regarding spending and service levels); and links to other government Web sites to provide school boards with easy access to regulatory requirements for school bus operation. Currently, the Ministry's Web site is available only to school boards and school bus operators. The Ministry intends to grant public access to the Web site in the future, which would enable the general public to compare transportation services and costs among school boards.

The Ministry clarifies legal and policy issues as the need arises. For instance, in April 2002, the Ministry sent a letter to all school boards that clarified its policy with respect to prohibiting school boards from charging fees for transportation services.

TRANSPORTATION OF SPECIAL NEEDS STUDENTS

Recommendation

To enhance accountability and to ensure equitable funding of transportation for special needs students, the Ministry should:

- *require boards to track and report these costs separately; and*
- *consider funding transportation costs for high needs students through the Special Education Grant.*

Current Status

The first part of the recommendation was implemented, insofar as the Ministry will require that boards track the cost of transportation for students with special needs in order to complete the transportation survey that the Ministry is intending to annually require from boards.

The second part of the recommendation was not implemented. Currently, special education program managers lack the information needed to make economical decisions about whether to provide a given service at local schools or instead provide it on a more centralized basis and transport students to the service location. They also lack the incentive to do so, because neither alternative impacts the special education budget.

FUNDING POLICY FOR SAFETY HAZARDS

Recommendation

To better ensure that transportation grants are equitable and utilized in a cost-effective manner, the Ministry should:

- *clearly specify the conditions, if any, under which it is appropriate for school boards to use transportation grants to address municipal responsibilities; and*
- *ensure that the funding mechanism provides incentives for school boards and municipalities to work together to implement the most economical solutions for addressing safety hazards.*

Current Status

The Ministry is still examining options on how best to deal with this issue. In cases where municipalities have not taken appropriate corrective action regarding hazards, the Ministry continues to provide boards with the funding required to provide additional bus service. As a result, the province continues to fund bus services in cases where alternative solutions to safety hazards exist that are more economical and municipally funded.

MINISTRY OF THE ENVIRONMENT

4.06–Operations Division

(Follow-up to VFM Section 3.06, *Special Report on Accountability and Value for Money*—2000)

BACKGROUND

The Operations Division is responsible for administering the Ministry's approvals and enforcement activities. It also responds to reports of pollution and spills that may have health and environmental impacts. In addition, the Division cleans up abandoned contaminated sites using funds available in the Environmental Clean-Up Fund.

For the 2001/02 fiscal year, the Division had total expenditures of $83 million and about 895 staff. For the 1999/2000 fiscal year, it had total expenditures of $62 million and about 680 staff.

In our *Special Report on Accountability and Value for Money* (2000), we concluded that the Ministry did not have satisfactory systems and procedures in place to administer approvals and to enforce compliance with environmental legislation. Our major concerns included:

- Certificates of approval are required for any facility that discharges contaminants into the environment. The Ministry's systems did not enable it to assess whether the facilities for which over 220,000 certificates of approval had been issued since 1957 were in compliance with current environmental standards. As a result, the Ministry did not know the extent to which facilities were not meeting current environmental standards and, consequently, where corrective action had to be taken.
- An estimated over $90 million in financial assurance was not obtained from facility operators, as required under legislation, to clean up potential damages that operators may cause to the environment.
- A 25% reduction in regional staff over the four-year period from 1995/96 to 1999/2000 had contributed to a 34% decrease in the number of ministry-initiated inspections conducted per year. Further, the Ministry relied extensively on facility operators to comply voluntarily rather than impose available stringent enforcement measures. This was of particular concern as one-third of violations found by ministry inspectors were repeat violations and the Ministry identified significant violations in 31% of the inspections it conducted.
- The Ministry usually learned of contaminated sites only after serious harm to the environment had already occurred.

- Over $10 million in fines had accumulated over many years. The Ministry had not supported the collection of fines as it could have by aggressively enforcing environmental legislation that allows it to suspend violators' operations if necessary.

We also concluded that the Ministry was not measuring and reporting on its performance in a comprehensive and objective manner in order to demonstrate its progress in managing the environment.

Accordingly, we made a number of recommendations for improvement and received commitments from the Ministry that it would take corrective action.

CURRENT STATUS OF RECOMMENDATIONS

Based on information received from the Ministry, we concluded that continuing action was required to implement most of our recommendations. The current status of each of our recommendations is outlined below.

COMPLIANCE WITH ENVIRONMENTAL LEGISLATION

Certificates of Approval—Updating Certificates of Approval

Recommendation

In order to ensure that existing certificates of approval reflect current environmental standards, where required, and are being applied consistently, the Ministry should:

- *improve its information systems so that all certificates of approval can be assessed on the extent to which they need to be updated with new conditions and requirements;*
- *develop systems that would allow for updating certificates of approval in a timely and efficient manner; and*
- *establish action plans and timetables for when certificates of approval will be required to be up-to-date.*

Current Status

The Ministry was continuing its efforts to implement a new, computerized Integrated Divisional System (IDS), which was expected to improve the informational needs and efficiency of the Division.

In November 1999, the Ministry began using IDS to record and track certificates of approval. As of March 31, 2002, approximately 115,000 certificates previously stored within various databases and on a manual card index system were now recorded on IDS.

Since August 2000, the Ministry has updated approximately 3,000 certificates of approval for certain higher-priority facilities, such as water treatment plants serving municipalities. In

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addition, the Ministry completed its internal program effectiveness review of its certificate-of-approval program in July 2001. The program effectiveness review resulted in 10 recommendations for updating certificates of approval to reflect current environmental standards, including a recommendation that all certificates of approval undergo a mandatory review every five to 10 years.

In January 2002, the Ministry's preliminary analysis on the extent to which certificates of approval require updating was as follows.

Ministry Analysis of Certificate-of-approval Updating Needs

Extent of Updating Required	Reason	Estimated Number of Certificates Affected
None	No significant change in environmental requirements has occurred (e.g., for watermains and storm and sanitary sewers)	120,000
N/A	Certificate holder no longer in operation	40,000
None	New exemptions in effect (e.g., for food preparation equipment)	10,000
Unknown	Insufficient information available	50,000
	Total (estimated)	**220,000**

Source of data: Ministry of the Environment

The Ministry also indicated that it has developed a three-point pilot project that would support preparation of a comprehensive strategy for updating certificates of approval. The strategy includes:

- requiring updates for certificates of approval in cases where the certificate holder is applying to make significant changes to its operations;
- implementing a field-alert system to support compliance and inspection activities for identifying certificate holders whose certificates of approval require updating; and
- a risk-based proactive identification of strategically selected sectors in which certificates of approval require updating.

The three-point pilot project is expected to result in the updating of about 1,300 certificates of approval during the 2002/03 fiscal year.

During the summer of 2002, the Ministry was expecting to refine the estimates of the number of certificates of approval requiring updating. Based on the refined estimates, experience from pilot projects, and a consideration of the recommendations resulting from the program effectiveness review, a strategy for updating existing certificates of approval is to be developed over the next fiscal year. The plan and timetable as to how and when the over 100,000 remaining certificates of approval may be recorded on IDS is also to be established as part of the new strategy.

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Certificates of Approval—Financial Assurance

Recommendation

To minimize financial risk to the province relating to environmental clean-up costs, the Ministry should:

- *establish controls to ensure financial assurance requirements are assessed and specified in the certificates of approval and then followed; and*
- *identify, for each facility operator, the correct amount of financial assurance outstanding and take timely action to obtain the necessary assurance.*

Current Status

The Ministry has completed a review of internal procedures for financial assurance and has established and incorporated the results into a revised draft guideline. The revised draft guideline updates criteria as to when financial assurance should be required, how the amount of financial assurance should be determined, what form of financial assurance should be provided, and when financial assurance should be used by the Ministry to pay for compliance activities.

In addition, the financial assurance database has been upgraded. A user's manual and an administrator's manual have been completed for use by staff. As ministry staff access the database, they are also reviewing existing data to confirm its validity. In addition, a specific project is underway to double-check data validity and update the information.

The Ministry has validated previously identified potentially delinquent accounts and has determined that 155 of the original 553 certificate-of-approval holders were in fact delinquent in meeting financial assurance requirements. The Ministry indicated that, as of March 31, 2002, its follow-up had resulted in receiving confirmation that 69 operations were no longer in business, and compliance was obtained from 53 operations. The Ministry was continuing its efforts to collect from the remaining 33 delinquent accounts, and regular progress reports were being submitted to senior ministry management. As a result, about 80% of outstanding financial assurance cases have been resolved, and approximately $9 million has been collected.

Certificates of Approval—Costs Of Monitoring Compliance

Recommendation

To enable the Ministry to cost-effectively increase the scope of its environmental oversight role, it should consider imposing conditions on certificates of approval that include:

- *greater use of self-reporting requirements that demonstrate owner compliance, including, where warranted and practical, certification by independent experts; and*
- *owners paying a greater share of costs associated with monitoring their compliance.*

Current Status

In 2000/01, the government passed new regulations requiring that self-reporting and detailed third-party engineering assessments for municipal water treatment plants be submitted to the Ministry every three years. The reports and assessments are to be checked for compliance with the plants' certificates of approval and current drinking-water standards.

In addition, the Ministry has established or expanded a few pilot projects with several large operators with proven track records to test new approaches and best practices that include self-reporting and owners paying a greater share of the costs of monitoring their compliance.

However, the Ministry has not developed the guidelines indicated in its response to our recommendation, which would identify appropriate activities, circumstances, and mechanisms that require third-party compliance verification by independent experts and reporting.

Enforcement—Inspection Coverage

Recommendation

To more effectively enforce compliance with environmental legislation, the Ministry should explore options and develop procedures for significantly increasing its inspection coverage.

Current Status

The Ministry has introduced several changes to increase its inspection coverage. Most notably, in September 2000, the Ministry introduced an Environmental SWAT Team, which focuses on priority areas where compliance by industries or companies is a major concern. The team includes approximately 30 dedicated inspectors capable of conducting approximately 1,000 inspections per year.

In January 2001, the Ministry hired an additional 25 inspectors to allow it to meet its commitment of conducting annual inspections of all municipal water treatment plants across the province.

The following chart shows the number of inspections over the last three years.

Number of Inspections, 1999/2000–2001/02

Year	Number of Inspections		Total Inspections
	District Offices	Environmental SWAT Team	
1999/2000	4,182	N/A	4,182
2000/01	4,268	78	4,346
2001/02	3,836	1,005	4,841

Source of data: Ministry of the Environment

In June 2002, the Standing Committee on Public Accounts issued its report on hearings held on our audit report with representation from the Ministry. The Committee acknowledged the Ministry's recent commitment to improve its enforcement but concluded that a level of assurance was required from the Ministry to guarantee the inspection commitment over the long term. As a result, the Committee made the following recommendation: "The Ministry of the Environment should assess its risk, review, and inspection coverage for the period 2001–2003 and report to the Standing Committee on Public Accounts by June 1, 2003 on its corrective action to improve inspection coverage to reduce the range of environmental risks."

Enforcement—Resolving Violations

Recommendation

To make enforcement actions more timely and effective, the Ministry needs to strengthen its enforcement activities by:

- *taking appropriate action on violations and following up on a more timely basis; and*
- *ensuring policies and procedure manuals encourage the use of more stringent compliance measures, where appropriate.*

Current Status

In March 2000, the Ministry issued a directive to district staff providing clarity and direction on mandatory abatement and instructing staff to strictly adhere to the existing compliance policy. In addition, monthly abatement/enforcement activity reports on the use of enforcement tools available under the legislation to compel corrective action were introduced. According to the Ministry, this has resulted in more aggressive use of mandatory abatement actions against violators, including issuing control orders that specify actions and completion dates to bring about compliance. For example, the total number of control orders issued by environmental officers to operators requiring corrective action in 1999/2000 was less than 500; in 2000/01, almost 1,500 orders were issued; and in 2001/02, over 2,200 were issued.

In addition, the Ministry anticipates that, by fall 2002, it will be in a position to commence imposing new administrative monetary penalties on violators of up to $10,000. The use of administrative monetary penalties is expected to significantly increase and strengthen the range of enforcement tools available to the Ministry for obtaining compliance.

Enforcement—Significant Versus Minor Violations

Recommendation

To minimize environmental and health risks, the Ministry should:

- *reassess its policies, procedures, and criteria for determining the severity of violations; and*

- *ensure that the significance of preventative measures is better understood and communicated to staff.*

Current Status

The Ministry indicated that it has reviewed its operating policy and procedures to ensure that the severity of violations is consistently and appropriately assessed and that the full range of compliance tools is used across all programs. In addition, a revised draft compliance policy with strengthened considerations of human health and environmental consequences has been developed. This draft is expected to be finalized in the 2002/03 fiscal year. The revisions are largely based on the experience obtained through the SWAT risk-compliance project and take into account the implementation of administrative monetary penalties.

Enforcement—Managing Inspections

Recommendation

To make its inspection program more effective in supporting the enforcement of environmental legislation, the Ministry should:

- *review its policies, procedures, and guidelines over ministry-initiated inspection activities to ensure that adequate record-keeping and reporting requirements are in place; and*
- *ensure that inspections are consistently planned for and conducted.*

Current Status

As an interim measure, the Ministry implemented two databases for the collection of information associated with planned inspections: the Interim Inspection System for water treatment facilities was introduced in 2000, and the Municipal Sewage Inspection System was introduced in 2001. In order to enhance and maximize its inspection planning, the Ministry has, in several program areas, instituted centralized planning of, resource allocation for, training in, tracking of, and evaluation of inspection activities.

In addition, the Ministry indicated that it has reviewed and amended its annual workplan for inspection priorities and frequency for the various types of operations to ensure that regional offices are addressing all inspection priorities.

The Integrated Divisional System operational plan and inspections components were scheduled for rollout to ministry staff in fall 2002. The operational plan and inspections components are expected to help staff plan, conduct, and record inspections on a consistent and priority-driven basis.

Enforcement—Management Information

Recommendation

To better support and to improve the delivery of its enforcement efforts in protecting the environment, the Ministry should:

- *establish a system to identify all conditions of approvals that require follow-up by specific dates to assess owner compliance and, where necessary, initiate timely enforcement action;*
- *develop an accurate and comprehensive management information system to assist in identifying and prioritizing facilities for inspection; and*
- *periodically assess the types and frequency of violations and the effectiveness of enforcement measures used.*

Current Status

The new Integrated Divisional System was designed specifically to support and improve the information needed for enforcement. According to the Ministry, the development of the remainder of the system, including modules for pollution incident reporting, inspection activities, investigation/prosecution, operational planning, and time and task tracking, was completed in September 2001. In addition, a module to assist with the follow-up and tracking of conditions on certificates of approval was completed in November 2001, and a field-alert prototype system to allow field staff to request an update or revocation of any environmentally significant, out-of-date certificates of approval was developed in December 2001. Primary testing, system debugging, and staff training were in progress, and the operational plan and inspections components were scheduled for rollout to ministry staff in fall 2002.

When fully functional, the system is expected to run reports focused on facility type, violation type, and enforcement action, as well as inspection reports. This will allow for strategically targeting compliance inspection and enforcement activities and would focus field staff efforts on areas that have the most impact on environmental protection.

Enforcement—Unpaid Fines

Recommendation

To be more effective in enforcing environmental legislation and to improve collection of outstanding fines, the Ministry should investigate the reasons why outstanding fines are unpaid and use its statutory authority to suspend environmental approvals for violators who do not pay their fines.

Current Status

The process of issuing and collecting environmental fines is a shared responsibility between the provincial and municipal governments. The Ministry is responsible for conducting the majority of the environmental prosecutions in the province; the municipalities have responsibility for collection of the fines, and the Ministry of the Attorney General and the municipalities keep the fines information current on the provincial Integrated Court Offences Network (ICON) tracking system. The Ministry is now using ICON data as the source data to track and monitor information related to unpaid environmental fines.

According to the Ministry, fines assessed for the period from 1992 to December 31, 2001 totalled $26.9 million, of which $15.9 million has been collected, leaving an outstanding balance of $11 million. Ministry analysis indicates at least $2.7 million may not be collectable due to bankruptcy and insolvency, which leaves an outstanding balance of $8.3 million.

The Ministry was revising its business practices to support the ongoing collection of unpaid fines. The Ministry plans to regularly review the information related to unpaid environmental fines and identify those defaulters who hold an environmental permit, licence, or certificate of approval. The Ministry indicated that it will contact the appropriate municipalities and advise them that it is prepared to support municipal collection of fines using suspensions until payment is received. In addition, a new procedure in the Ministry's approval process is to be instituted in which all applicants are to be screened against unpaid fines. This process is to be in place before March 31, 2003.

Contaminated Sites—Identifying Contaminated Sites/ Liability and Financial Considerations

Recommendation

To help ensure that the Ministry's efforts and programs are effective in minimizing damage to the environment, the Ministry should develop a strategy for:

- *the early identification of all contaminated sites and responsible parties, which would allow for prioritizing clean-up requirements; and*
- *the establishment of incentives to encourage property owners to voluntarily clean up contaminated sites.*

Current Status

In response to our *Special Report on Accountability and Value for Money—2000*, the Ministry informed us that it would consider developing a strategy, with the co-operative involvement of other levels of government, to expand efforts that would encompass a wider range of contaminated sites and address means of identifying those sites earlier and encouraging clean-up of those sites.

The Ministry indicated that it is a key contributor to the multi-ministry strategy to facilitate the clean-up and redevelopment of contaminated sites. The contaminated sites include brownfield sites, which typically are large, abandoned, or decaying industrial or commercial sites with contamination that limits their future use. The *Brownfields Statute Law Amendment Act, 2001* received Royal Assent on November 2, 2001 and provides incentives for cleaning up contaminated sites, as well as mechanisms that ensure that sites meet appropriate standards when an owner requests a change in use. This legislation establishes:

- rules and requirements for the assessment, clean-up, and limitation of environmental liability for contaminated sites;
- mandatory filing of a record of site condition in a publicly accessible environmental site registry; and
- changes that streamline the planning process to expedite brownfield projects and allow municipalities to provide financial support for site assessment and clean-up costs associated with contaminated brownfield sites.

The Ministry was in the process of developing regulations for implementing the legislation and was developing the site registry, with targeted completion by fall 2002.

In addition, from August 2001 to March 2002, the Ministry provided $10 million in funding for groundwater studies to help municipalities map sensitive groundwater areas and to identify potential risks, such as contaminates, to groundwater sources.

However, the Ministry has not initiated significant changes to its operations to deal with the other risks of site contamination that we identified in 2000; such changes would allow for the timely identification of all contaminated sites and the parties responsible for their clean-up. For instance, no new measures were introduced to:

- identify existing industrial and commercial sites that were a high risk for contamination;
- determine whether closed private and municipal landfill sites posed a hazard to surrounding areas; and
- identify abandoned underground fuel storage tanks, which are the focus of about half of the projects being funded by the Environmental Clean-Up Fund administered by the Ministry.

Information System Contract

Recommendation

To facilitate the efficient and effective delivery of the Division's programs, the Ministry should ensure that the remaining portions of the Integrated Divisional System are completed in a timely and cost-effective manner and in accordance with required approvals.

Current Status

On February 15, 2000, the Management Board of Cabinet (MBC) approved a total cost of about $2.9 million for this project, which included actual and estimated costs from the 1997/98 fiscal year to the 2002/03 fiscal year. As of March 31, 2002, the Ministry had spent the entire amount approved by MBC. Certain components of the system were already in use, and others, while further delayed, are scheduled to be operational during the 2002/03 fiscal year, following final testing and training of staff.

MEASURING AND REPORTING ON PROGRAM EFFECTIVENESS

State of the Environment Reporting

Recommendation

To ensure that the Ministry's progress in managing the environment is measured and communicated in an objective manner, a state of the environment report should periodically be prepared using a set of comprehensive outcome measures that assess the quality of and changes to the environment over time.

Current Status

The Ministry has neither prepared nor committed to prepare a state of the environment report. Instead, the Ministry has continued with its long-term strategy of using its Web site to publicly share information on its own activities, such as results of enforcement efforts, as well as information on how the higher-risk regulated sectors (for example, municipal water works and the manufacturing and mining industries) are performing in their responsibilities related to the environment.

Divisional Performance Reporting

Recommendation

To provide a more comprehensive assessment of the Division's contribution to protecting the environment, the Ministry should develop more results-oriented performance indicators to measure and report on the effectiveness of the Division's operations.

Current Status

The Ministry was continuing to use its existing activity-based performance measures but indicated it was working towards the development of outcome-based performance measures. The Ministry expects that it will be better able to generate the data needed to develop enhanced performance measures when the new information systems in progress become operational.

MINISTRY OF FINANCE

4.07–Retail Sales Tax Program

(Follow-up to VFM Section 3.07, *Special Report on Accountability and Value for Money*—2000)

BACKGROUND

The *Retail Sales Tax Act* currently imposes a general sales tax of 8% on the retail price of most goods and services sold to final consumers. Various tax exemptions cover thousands of items and are aimed at reducing tax regression or promoting economic or social objectives. Examples of such exemptions include children's clothing, equipment for use by people with disabilities, and goods purchased by Status Indians under certain conditions.

At December 31, 1999, approximately 380,000 vendors were registered to collect and remit retail sales tax (RST) to the province. RST receipts for the 1999/2000 fiscal year totalled approximately $12.6 billion, net of $159.5 million in refunds, and represented 21% of the province's total revenue. For the 2001/02 fiscal year, RST receipts totalled approximately $13.8 billion and represented 28.6% of the province's total taxation revenue.

Although RST revenues had increased significantly as of 1999/2000, and the Ministry had made improvements to its administration of this program since we last audited it in 1995, we concluded that the Ministry needed to further improve its procedures because it did not:

- conduct research into the underground economy in order to identify sectors of the economy in need of more rigorous compliance and enforcement action;
- have adequate procedures in place to ensure that all vendors that should have been registered with the Ministry to collect RST were in fact registered;
- include all segments of the small vendor population in its audit coverage;
- select vendors for audit more representatively with a view to encouraging broad-based voluntary compliance;
- follow up on all overdue vendor sales-tax returns on a timely basis; and
- often make adequate or timely collection efforts, particularly for the many smaller outstanding balances.

We made a number of recommendations for improvement and received commitments from the Ministry that it would take corrective action.

CURRENT STATUS OF RECOMMENDATIONS

The Ministry had taken or was in the process of taking corrective action on all of our recommendations. The status of each of our recommendations as of June 30, 2002 is detailed in the following.

TAX ROLL

Recommendation

To help ensure that the tax roll for vendors that sell taxable goods and services is complete and accurate, the Ministry should:

- *work with the Ministry of Consumer and Commercial Relations [which has since become the Ministry of Consumer and Business Services] to ensure that it is appropriately advised of newly registered businesses for potential inclusion in the tax roll; and*
- *implement additional procedures needed for identifying non-registered vendors selling taxable goods and services through data matching with other government databases or at their places of business.*

Current Status

The Ministry advised us that information technology business requirements and programs are being developed to link the retail sales tax and corporations tax databases (corporate registrations received from the Ministry of Consumer and Business Services) during the 2002/03 fiscal year. In addition, initial contact with the Ministry of Consumer and Business Services has been established to explore opportunities to match the business names registry with the RST database. Details are being worked out, and the Ministry hopes to obtain the necessary data during the 2002/03 fiscal year.

The Ministry has matched the RST and the federal GST databases for certain high-risk sectors and advised us that the number of non-registrants identified was somewhat less than originally anticipated. The Ministry is awaiting the results from matching other business sectors.

OVERDUE SALES TAX RETURNS

Recommendation

To identify and follow up on outstanding retail sales tax returns and required remittances more promptly, the Ministry should ensure that:

- *vendors with overdue tax returns are contacted within the required time periods; and*
- *when necessary, estimated assessments are issued on a more timely basis.*

Current Status

In May 2001, the Ministry received approval from Management Board of Cabinet to temporarily double staffing in this area to address the backlog. The extra staff were on board and fully trained as of December 2001, at which time the Ministry anticipated that the backlog would be eliminated within two years. The Ministry is currently assessing the impact of the labour disruption in the spring of 2002 on its goal of eliminating the backlog.

COLLECTIONS

Recommendation

To help maximize the collection of all outstanding accounts receivable, the Ministry should ensure that all accounts receive timely action by a collector, including those under $10,000.

Current Status

The Ministry has improved the management information available in its information technology system in several important respects and is developing the necessary reports to effectively monitor the level of activity at all stages of the collection function. The Ministry also intends to conduct a series of operational reviews of the collection function commencing in September 2002.

ENFORCEMENT

Tax Gap

Recommendation

To help reduce the tax gap, the Ministry should conduct the research necessary to identify significant aspects of the underground economy and focus its compliance and enforcement efforts on these aspects.

Current Status

The Compliance Planning and Research Unit referred to in the Ministry's response to our recommendation was established in February 2001, and all staff were on board by October 2001.

The Ministry is part of the National Working Group on the Underground Economy. Joint compliance research at a national level is expected to move forward over the next year along with several pilot initiatives in the areas of data sharing, enforcement, and education. We were also informed that the Ministry regularly exchanges data and information on audit assessments and non-registrants with the Canada Customs and Revenue Agency.

Audit Coverage

Recommendation

To detect unpaid retail sales taxes owed to the province and to encourage broad-based voluntary compliance, the Ministry should include all segments of the small vendor population in its audit coverage and attain overall audit coverage levels that will ensure visibility in the broader vendor community.

Current Status

In October 2001, the Ministry completed a detailed review of small vendor audit coverage by profile code to identify areas requiring greater audit visibility to achieve balanced coverage. We were advised that the results of the review were discussed by the appropriate senior managers and that a plan of action to increase small vendor audit coverage was developed for implementation in the 2002/03 fiscal year.

Audit Selection

Recommendation

To help ensure that it meets its objectives for encouraging voluntary vendor compliance as well as for recovery of retail sales taxes owing, the Ministry should:

- *select vendor files for audit on a more representative basis, with a view to encouraging broad-based, voluntary compliance; and*
- *ensure that selected audits commence and are completed on a timely basis.*

Current Status

The Ministry has commenced a review of its audit selection approach and strategy in consultation with the regional tax offices. We were also advised that the development of a centralized divisional audit selection system is under review.

In addition, joint committees of staff from the Canada Customs and Revenue Agency and the Ministry now meet quarterly to better co-ordinate their respective audit efforts and share audit-related information.

The Ministry also has established timelines for the completion of audits and has developed quarterly management reports to monitor compliance with these requirements, effective October 31, 2001. However, a ministry review found that timely completion of audits continues to be a concern in some cases.

Tax Refunds

Recommendation

To help ensure that only eligible refunds of retail sales tax are made, the Ministry should maintain a list of refunds issued subject to audit and ensure that, where refunds are issued subject to audit, the necessary follow-up work is performed.

Current Status

A quarterly report on refunds processed subject to audit is regularly being provided to the appropriate offices for monitoring purposes.

Penalties

Recommendation

To provide an effective deterrent, the Ministry should consider imposing the legislated 25% penalty in cases where correct retail sales tax amounts are not remitted as a result of taxpayer neglect, carelessness, willful default or fraud. When a penalty is not imposed, the Ministry should ensure that the reasons are clearly documented.

In addition, the Ministry should review and determine whether the threshold amount below which penalties are not assessed is appropriate.

Current Status

We were advised that all offices were instructed to adhere to the existing policy.

The Ministry is also in the process of reviewing the current threshold amount under which penalties are not imposed. A draft briefing paper outlining a revised policy for the 25% penalty is currently being reviewed. Upon approval of the briefing paper, the Ministry intends to make appropriate revisions to the Audit Handbook regarding the 25% penalty.

MINISTRY OF HEALTH AND LONG-TERM CARE

4.08–Community Health Centre Program

(Follow-up to VFM Section 3.08, *Special Report on Accountability and Value for Money*—2000)

BACKGROUND

Community health centres (CHCs) provide health care, health promotion, and other health, educational, and social services to identified priority groups within their geographical areas. Unlike most primary health care providers, which are funded on a fee-for-service basis, CHCs have fixed budgets and provide services using salaried staff. For the 2001/02 fiscal year, the Ministry provided approximately $117 million to fund CHCs. In 1999/2000, it provided approximately $87 million.

In our 2000 audit, our major concerns with the Program were:

- The Ministry had not assessed the efficiency, effectiveness, and ability of CHCs to provide quality care.
- Funding for CHCs was not linked to the expected amount of services to be provided, the number of clients to be served, or the anticipated outcomes.
- The Ministry had no assurance that CHCs regularly review the quality of care they provide and the services they deliver.

We made a number of recommendations for improvement and received commitments from the Ministry that it would take corrective action.

CURRENT STATUS OF RECOMMENDATIONS

According to information we received from the Ministry of Health and Long-Term Care, the Ministry has taken some action on all of the recommendations we made in our *Special Report on Accountability and Value for Money* (2000). The current status of each of our recommendations is outlined below.

CHCS AND PRIMARY CARE REFORM

Recommendation

To ensure that any additional investments in CHCs are justified, the Ministry should first evaluate the efficiency and effectiveness of CHCs in providing quality primary health care and compare the results with other models of primary care delivery.

Current Status

According to the Ministry, a strategic review of the CHC Program began in December 2000. A steering committee comprising various internal and external stakeholders issued a final report on June 8, 2001, which is now available to the public on the ministry's Web site. The Ministry developed implementation options in response to the results of the strategic review, and an action plan was approved for inclusion in the Ministry's 2002/03 business planning allocation process. The Ministry has begun work to identify alignment issues for integrating the CHC Program more fully with the objectives of primary-care reform.

The Ministry indicated that, while CHCs have been collecting information, there were significant problems with the new data extraction software that was implemented in October 2000, therefore limiting the Ministry's ability to utilize the information. A new version of the software, based on input from the field, was implemented in early 2001.

CHCs were surveyed in July 2001 to determine the extent of outstanding data quality issues. In response, a phased approach to transmitting data from the CHCs to the Ministry has been implemented. In January 2002, the Ministry updated its management information system, which improved the system's usability.

The Ministry advised us that it would continue to evaluate the experiences of other jurisdictions to identify best practices and approaches that warrant consideration in Ontario.

FINANCIAL MANAGEMENT

Recommendation

To better enable it to assess whether CHCs use their funding economically and in accordance with funding arrangements, the Ministry should:

- *ensure the timely receipt of audited financial statements and activity reports; and*
- *monitor CHC expenditures during the year and adjust cash flows where warranted.*

Current Status

The Ministry advised us that a revised system to ensure the timely receipt of audited financial statements and activity reports was put in place in 2002.

The Ministry informed us that expenditures for the 2001/02 fiscal year have been reviewed and cash flows adjusted where warranted.

ASSESSING CHC PERFORMANCE

Recommendation

To help ensure the prudent use of funds by CHCs, the Ministry should:

- *develop measures and benchmarks to monitor and evaluate CHC performance; and*

- *ensure funding agreements include measurable objectives and the results to be achieved by CHCs for the funding provided.*

Current Status

According to the Ministry, a preliminary set of measures and performance indicators has been developed. Work is underway to identify qualifiers, data definitions, parameters, exclusions, and methods of calculation and to test indicators against data from the management information system. Specific indicators are to be finalized during 2002.

The Ministry indicated that 2002/03 funding agreements with CHCs would include a preliminary set of indicators to support the CHC Program's ability to measure whether results to be achieved by CHCs are consistent with funded expectations. The January 2002–October 2002 period will be used to identify and refine benchmarks for CHC performance.

SERVICES AND STAFFING

Recommendation

To help ensure that CHCs deliver efficient and economical health care, the Ministry should:

- *obtain and utilize information about the services provided to determine the funding level required to provide them; and*
- *develop guidelines to assist CHCs in determining cost-effective combinations of health-care staff.*

Current Status

The Ministry indicated that difficulties with data extraction have limited the CHC Program's ability to make comparisons among CHCs and analyze trends in service volumes. In the meantime, the Ministry has continued to require that CHCs collect the data needed for such analysis, such as the number of clients served and services provided and has begun generating preliminary reports for analysis.

According to the Ministry, there are ongoing consultations with stakeholders regarding evidence-based practice. For instance, the Ministry is consulting with provider groups and other stakeholders to explore combinations of health-care providers that may contribute to high-quality and cost-effective health care.

SERVICES FOR NON-INSURED CLIENTS

Recommendation

To enable it to better assess the needs of the CHC Program, the Ministry should obtain complete information on the number of non-insured clients served by CHCs and the types of services they receive.

Current Status

The Ministry advised us that, until data extraction difficulties are resolved, CHCs will submit this information manually to the Ministry. The Ministry indicated that it is working on resolving the data extraction difficulties to enable the Ministry to obtain a detailed picture of the services received in each CHC by non-insured clients.

MONITORING SERVICE DELIVERY

Recommendation

To help ensure that the services provided by CHCs are of high quality and are provided cost-effectively, the Ministry should:

- *conduct regular reviews of CHCs to ensure that expectations are being met; and*
- *ensure that CHCs regularly review the quality of care they provide and the services they deliver.*

Current Status

According to the Ministry, the accreditation process for CHCs has been revised to include all of the accountability requirements of the Ministry. Agreements with CHCs now require CHCs to report their accreditation status each fiscal year. The Ministry also indicated that it would reinforce the requirement that CHCs review the quality of care they provide to their clients. This requirement is to be included in the new funding agreements with CHCs.

COMPLAINTS

Recommendation

To ensure that complaints concerning CHCs are dealt with appropriately, the Ministry should require CHCs to have adequate procedures for addressing complaints.

Current Status

The revised *Policies and Procedures Manual,* to be issued in Spring 2002, requires each CHC to have a complaints process. Minimum requirements are to be included in the manual.

INFORMATION SYSTEM

Development and Implementation

Recommendation

To help ensure that information systems are properly developed and implemented, the Ministry should ensure that appropriate oversight and project management expertise is applied.

Current Status

According to the Ministry, a process has been established to ensure that program management and technical expertise are brought to bear on all ongoing projects. In addition, the Ministry's Systems Development Branch (SDB) has the lead role in the integrated testing of the next version of the clinical management and data extraction software. The Ministry also indicated that CHC program staff were continuing to work closely with SDB staff to develop plans to enable cost-effective use of information technology in CHCs.

Access to Information

Recommendation

The Ministry should expedite the resolution of any access to information issues to ensure that their impact on the new information system is recognized and addressed early in the development process.

Current Status

The Ministry advised us that a data-sharing agreement between the Ministry and CHCs would be finalized in June 2002.

MINISTRY OF HEALTH AND LONG-TERM CARE

4.09–Emergency Health Services

(Follow-up to VFM Section 3.09, *Special Report on Accountability and Value for Money*—2000)

BACKGROUND

The *Ambulance Act* governs the provision of ambulance services in Ontario. Under the Act, the duties and powers of the Minister of Health and Long-Term Care include ensuring "the existence throughout Ontario of a balanced and integrated system of ambulance services and communication services used in dispatching ambulances."

Under Local Services Realignment, the responsibility for operating land ambulance services was transferred from the province to municipalities, effective January 1, 2001. Since realignment, the province funds 50% of the approved costs of land ambulance services, and municipalities fund the remaining costs. The *Ambulance Act* states that every municipality will "be responsible for ensuring the proper provision of land ambulance services in the municipality in accordance with the needs of persons in the municipality." The Ministry remains responsible for ensuring that minimum standards are met for all aspects of ambulance services. During the 2001/02 fiscal year, Emergency Health Services' expenditures totalled approximately $369 million. During the 1999/2000 fiscal year, Emergency Health Services' expenditures, prior to recoveries by the province from municipalities for their portion of the operating costs, were approximately $404 million.

In our 2000 audit, our major concerns were:

- Land ambulance services were being downloaded to municipalities at a time when over 50% of land ambulance operators were not meeting response time requirements, which were based on 1996 actual response times. In addition, these requirements varied widely across the province.
- The Ministry estimated that an additional $40 million annually and $11.6 million in one-time funding were needed to meet established response time requirements.
- The risk of poor response times was increased because, as stated by the Emergency Services Working Group, 36% of the time that hospitals requested redirect consideration and critical care bypass, their emergency departments were not at full capacity.
- The realigned land ambulance system may not provide a balanced and integrated system of services and may be more costly to Ontarians. The Ministry estimated that in the year 2000, an additional $53 million would be needed to maintain the existing level of service, which was already not meeting response time requirements.

We made a number of recommendations for improvement and received commitments from the Ministry that it would take corrective action.

CURRENT STATUS OF RECOMMENDATIONS

Based on information that we received from the Ministry of Health and Long-Term Care, the Ministry has taken some action on all of the recommendations we made in our *Special Report on Accountability and Value for Money* (2000). The current status of each of our recommendations is outlined in the following sections.

LAND AMBULANCE

Local Services Realignment—Transition

Recommendation

The Ministry should ensure that after realignment has been completed, the land ambulance program in Ontario is seamless, accessible, accountable, integrated, and responsive.

The Ministry should also take corrective action where necessary.

Current Status

In response to a request by the Standing Committee on Public Accounts, which held hearings on our 2000 report on this matter, the Ministry completed an assessment report in January 2002 on the impact of the Local Services Realignment on the seamlessness, accessibility, accountability, integration, and responsiveness of the land ambulance system. The Ministry is in the process of addressing the results of the report. Corrective action is to be taken where necessary.

Local Services Realignment—Responsibility for Dispatch

Recommendation

The Ministry and municipalities should work to ensure that municipal boundaries do not impair the delivery of ambulance services to patients or add significantly to costs.

Current Status

We were advised by the Ministry that, with the assistance of central ambulance communication centres (CACCs), the Ministry has identified initiatives to limit situations where ambulances are used to provide services outside their area. Through meetings between ministry staff and staff at service providers, these initiatives have been modified to ensure that in emergency situations, municipal boundaries will not impact on service delivery.

The Ministry also advised us that, at the local level, CACC advisory and liaison committees continue to meet to address cross-boundary workload pressures and to provide a process for managing cross-boundary issues.

Local Services Realignment—Funding

Recommendation

To help ensure that funding provided to municipalities is reasonable and equitable, the Ministry should:

- *develop a process that assesses relative need and ensures equitable funding across the province; and*
- *define which municipal costs will qualify for provincial funding.*

Current Status

The Ministry advised us that it has implemented a funding template. This template defines the land ambulance costs that the Ministry will share with service providers. All service providers have received written notice of their approved cost-sharing grant from the Ministry and have been advised that, subject to the availability of funds, adjustments to their approved cost-sharing grant may be requested through a business case. Each business case is to be assessed by ministry staff.

Response Times—Ambulance Response Times

Recommendation

To help ensure that ambulance response times for emergencies meet the needs of patients throughout the province, the Ministry, together with the municipalities, should:

- *review current response time requirements for reasonableness and consistency and, where necessary, make adjustments; and*
- *take appropriate corrective action where specified response time requirements are not met.*

Current Status

The Ministry advised us that it reached an agreement with the Association of Municipalities of Ontario and the Land Ambulance Implementation Steering Committee on a response time improvement framework. The framework was initially tested in six municipalities, and the results analyzed. On August 17, 2001, a revised framework was sent to all service providers.

All response time improvement framework submissions from service providers were received by the Ministry and analyzed. Requests for additional provincial resources for response time improvements were submitted to the Ministry. These were being reviewed by ministry staff.

The Ministry also indicated that it has conducted a comprehensive review of land ambulance response times and is now providing municipalities with access to response time statistical data.

Response Times—Dispatch Response Times

Recommendation

To better meet the needs of patients, the Ministry should:

- *establish dispatch response time standards;*
- *monitor whether these standards are being met; and*
- *take timely corrective action where necessary.*

Current Status

The Ministry advised us that performance agreements were in place with five of the eight central ambulance communication centres (CACCs) not operated by the Ministry. These agreements include dispatch standards. Agreements with the remaining three were being pursued. Discussions were also underway to add standards for dispatch response times to the performance contracts of the managers of ministry-operated CACCs.

The Ministry advised us that the staffing and technological enhancements needed for CACCs to meet minimum dispatch response time standards have been requested via the Ministry's 2002/03 Business Planning Allocation process.

The Ministry also indicated that its field staff monitor the performance of CACCs by reviewing incident reports relating to delays in dispatching and service delivery and that an analysis of the 2001 CACC reaction time standards is planned for spring 2002.

Response Times—Redirect Consideration and Critical Care Bypass

Recommendation

The Ministry should analyze the impact of redirect consideration and critical care bypass on ambulance services, including response times for subsequent patients, and, where necessary, take appropriate corrective action.

Current Status

In October 2001, the Ministry implemented the Patient Priority System (PPS) to replace redirect consideration and critical care bypass. Under PPS, a patient's degree of distress is categorized by paramedics in accordance with the Canadian Triage Acuity Scale (CTAS), thereby ensuring that paramedics, ambulance dispatch personnel, and hospital emergency personnel use the same language to describe the needs of emergency patients. In addition, while hospitals can communicate their degree of emergency department pressure to ambulance dispatch centres using categories defined by CTAS, PPS requires that critical ambulance patients are to always be taken to the closest emergency department.

Dispatch Priority

Recommendation

The Ministry should ensure that central ambulance communication centres appropriately assess and prioritize patient needs.

Current Status

The Ministry has hired 11 training officers who have commenced work in training dispatch staff in the assessment and prioritization of patient needs.

The Ministry indicated that it has discontinued the project to enhance the Dispatch Priority Card Index (DPCI) protocol in the current computer-aided dispatch environment because of concerns raised about amending the current system on the existing computer platform. The Ministry plans to restart this project once the replacement computer-aided dispatch is implemented (late 2002/early 2003).

Performance Monitoring

Recommendation

To help ensure that the land ambulance system effectively meets patient needs, the Ministry should:

- *research systems to analyze operator performance, including its impact on patient outcomes; and*
- *take corrective action where necessary.*

Current Status

The Ministry has developed and implemented a certification process that focuses primarily on patient care provided by service providers. The certification process provides for action where a contravention of standards has occurred. According to the Ministry, follow-up visits are being conducted on applicants where a breach of certification criteria is found. Failure on the part of an existing operator to meet criteria may lead to a revocation of certificate.

Performance Monitoring—Service Reviews

AMBULANCE OPERATOR SERVICE REVIEWS

Recommendation

To help ensure that ambulance operators meet ministry requirements, the Ministry should:

- *consider performing certification reviews without advance notice to increase assurance of consistent quality of practice by operators;*
- *have a co-ordinated follow-up of all deficiencies identified during certification reviews on a timely basis; and*
- *clarify the circumstances when a formal investigation of an operator is required and when a certificate should be revoked.*

Current Status

The Ministry indicated that, in addition to instituting an inspection process with notice given, it is now conducting visits to follow up on certification reviews with little or no notice given depending on the nature of the breach of certification criteria. A standard implementation and follow-up process addressing the deficiencies identified during certification reviews is being implemented by the Emergency Health Service Branch's field managers. The Ministry will consider revoking a certificate where a contravention of *Ambulance Act* standards has occurred.

CENTRAL AMBULANCE COMMUNICATION CENTRE AND BASE HOSPITAL REVIEWS

Recommendation

To help ensure that emergency patients' needs are being effectively and consistently addressed, the Ministry should:

- *review central ambulance communication centres and base hospitals within reasonable timeframes; and*
- *resolve all identified deficiencies on a timely basis.*

Current Status

According to the Ministry, reviews have now been conducted on each base hospital and will continue to be conducted on a three-year cycle.

The Ministry advised us that deficiencies found during reviews at base hospitals are discussed with base hospital staff, corrective action plans are developed jointly, and the Ministry monitors whether corrective action is taken by the base hospital. A tool to review central ambulance communication centres is being developed and should be approved for use in 2002.

Performance Monitoring—Complaints

Recommendation

To better enable it to assess whether complaints are satisfactorily resolved, the Ministry should:

- *establish clear lines of responsibility for following up on deficiencies identified in investigation reports; and*
- *ensure that follow-ups are completed and documented.*

Current Status

According to the Ministry, a draft process for investigating complaints about ambulance service providers has been referred for comments to the Freedom of Information Subcommittee of the Land Ambulance Implementation Steering Committee. There is also ongoing dialogue on the matter between the Ministry and service providers.

The Ministry indicated that it has forwarded a funding request to Management Board of Cabinet for additional staff to ensure that follow-ups are completed and documented.

Non-Emergency Inter-Institutional Transfers

Recommendation

The Ministry and municipalities should jointly develop and ensure standards are in place that address passenger safety and encourage the use of the most cost-effective resources for transferring non-emergency patients.

Current Status

According to the Ministry, the Land Ambulance Implementation Steering Committee identified inter-institutional transfers as one of the highest priorities on its agenda. The Ministry has hired a consultant to undertake a wide-ranging independent study of how inter-institutional transfers should be managed, funded, and provided. The consultant is expected to provide a report by late spring 2002.

AIR AMBULANCE PROGRAM

Use and Selection of Aircraft

Recommendation

The Ministry needs to better demonstrate through proper documentation that air ambulances are used appropriately and that the aircraft selected meet patient needs in the most economical manner.

Current Status

The Ministry informed us that it has installed a new system that considers level of care and patient compatibility using well-documented information on the patient's medical condition and flight requirements. This will help ensure that air ambulances are used appropriately and economically.

Response Times

Recommendation

To help ensure that air ambulance dispatch and response times meet the needs of patients, the Ministry should:

- *develop, track, and monitor air ambulance dispatch response time standards;*
- *track and monitor contracted air carrier response times and take corrective action when necessary; and*
- *ensure air carrier contracts contain appropriate penalties for not meeting required response times.*

Current Status

In 2001, the Ministry developed response time standards for air ambulance dispatch. Reports generated by the existing dispatch computer system showed that dispatch response time standards were being met in 2001. The Ministry indicated that it is likely a year away from integrating its new Dispatch Flight Assist Call Tracking System with flight planning. In the meantime, the Ministry was continuing to manually monitor dispatch response times.

According to the Ministry, the project officer responsible for the management of contracts with carriers now monitors and verifies invoices and incident reports, including cases where carriers have not met required response times. The project officer is also responsible for imposing related penalties on operators in accordance with their contracts.

Inspecting Service Providers

Recommendation

To help ensure that the air ambulance program is providing safe and quality services at an appropriate cost, the Ministry should:

- *conduct inspections and evaluations of air ambulance providers in accordance with ministry policies and procedures;*
- *track and analyze air ambulance use and performance data; and*
- *take corrective action when necessary.*

Current Status

The Ministry indicated that it has increased the number of inspectors and is providing introductory training to all new inspectors. The responsible project officer works with appropriate ministry staff to set standards and reviews the re-certification of air operators. Ministry inspectors expect to be increasing inspection activities in spring 2002.

The Ministry advised us that it is likely a year away from implementing a new integrated system that will permit it to report on air ambulance use by type of aircraft and type of calls dispatched.

According to the Ministry, the performance of service providers continues to be monitored, and no areas of non-compliance have been identified to date.

Patient Billings

Recommendation

To help ensure that, where applicable, all patients are billed equitably and outstanding amounts are collected, the Ministry should establish effective procedures to:

- *ensure that all patients who should be billed are identified and invoiced in a timely manner for the total cost of the service provided, regardless of the air carrier used; and*
- *collect outstanding accounts on a timely basis.*

Current Status

According to the Ministry, where applicable, patients are now being charged for the total costs of services provided. Billings are sent to patients or their insurance companies within 30 days of the Ministry receiving the related invoice/information from hospitals. Second and third reminders are sent at 30-day intervals. For patient and insurance company invoicing, there is a cost-recovery system in place whereby each flight is reviewed and the amount to be billed is determined.

For the collection of outstanding accounts, an agreement with the Collection Management Unit of Management Board Secretariat is being finalized.

MINISTRY OF HEALTH AND LONG-TERM CARE

4.10–Health Service Organization and Primary Care Network Programs

(Follow-up to VFM Section 3.10, *Special Report on Accountability and Value for Money—2000*)

BACKGROUND

The Health Service Organization (HSO) Program was established in 1973, and the Primary Care Network (PCN) Program was established in 1999. Each HSO and PCN comprises physicians who have agreed to provide a defined set of primary health-care services to their enrolled patients. During the 2001/02 fiscal year, the Ministry provided transfer payments totalling approximately $45 million to HSOs and $36 million to PCNs.

Our major concerns with the programs were:

- HSO patient rosters had only been verified once, despite the fact that approximately 8,000 of the 18,000 patients verified at that time proved to be ineligible and were removed from HSO rosters.
- The Ministry had not assessed whether it was receiving value for money for the more than $20 million in annual funding it provided to the Group Health Association.
- Expansion of the PCN Program, to include 80% of eligible family doctors, was being planned while evaluations of the pilot PCNs were still not completed.
- Capitation (per person) funding rates did not take into account factors that may affect the need for primary health care, such as patients' medical histories.

We made a number of recommendations for improvement and received commitments from the Ministry that it would take corrective action.

CURRENT STATUS OF RECOMMENDATIONS

According to information obtained from the Ministry, the Ministry has taken some action on all of the recommendations made in our *Special Report on Accountability and Value for Money* (2000) The current status of each of our recommendations is as follows.

HEALTH SERVICE ORGANIZATIONS

Roster Verification and Negation

Recommendation

To help ensure that payments to HSOs are made only for patients actually receiving their primary care from the HSO, the Ministry should:

- *implement regular verification procedures for HSO rosters; and*
- *where practical, apply negation for primary care services provided to rostered patients by alternatively funded physicians.*

Current Status

According to the Ministry, a regular roster verification process has been implemented. This process is to be compatible with the new PCN system. In 2001, the Ministry sent each HSO a list identifying the patients to be verified and the letters that were to be sent to these roster members, who represented 5% of each HSO's roster. All HSOs have submitted their results to the Ministry, and roster changes were in the process of being implemented.

The Ministry also advised us that it had performed audits at 58 HSOs in 2000 and 53 HSOs in 2001 to ensure that patient signatures were on enrolment forms. Signature audits for 2002 have been completed at 20 HSOs, and the remainder were to be completed by October 2002. We understand that these audits are being followed up on to ensure full compliance with ministry requirements.

The Ministry indicated that, where feasible, negations (deductions from subsequent payments) would be implemented for primary care services provided to HSO-rostered patients by alternatively funded physicians.

Roster and Billing Limits

Recommendation

To ensure that HSOs are paid in accordance with agreed-upon roster sizes and fee-for-service billing limits, the Ministry should monitor HSO compliance with those limits.

Current Status

According to the Ministry, fee-for-service and roster limit recovery notices for the 1997/98 and 1998/99 fiscal years were sent to HSOs in October 2000. This resulted in recoveries totalling approximately $111,000. The Ministry advised us that any outstanding amounts are being collected in accordance with accounts receivable guidelines.

The Ministry also indicated that the amounts to be recovered for the 1999/2000 and 2000/01 fiscal years were to be calculated in the summer of 2002.

Institutional Substitution Program Grants

Recommendation

To help ensure that value for money is received from Institutional Substitution Program grants, the Ministry should:

- *examine the appropriateness of the grants; and*
- *review the grants being provided and, where necessary, make appropriate adjustments.*

Current Status

According to the Ministry, Institutional Substitution Program (ISP) grants were reviewed starting in July 2001. However, because of the lack of historical information, recommendations were made to continue the program and review the grants again after the 2001/02 activity reports were received in June 2002.

The Ministry also advised us that new templates for preparing activity reports were sent to grant recipients in March 2002. As part of the renegotiation of the ISP agreements, the grants will be reviewed with a view to reforming the grants to align with standardized targets and programs.

Performance Measurement and Reporting

Recommendation

The Ministry should complete its study comparing health-care utilization and costs in health service organizations with fee-for-service practices and ensure that the results are considered in the implementation of the PCN Program.

Current Status

The Ministry advised us that ministry staff are continuing to work with the Centre for Health Economics and Policy Analysis at McMaster University to provide historical roster information that is needed to complete the study comparing health-care utilization and costs in health-service organizations with fee-for-service practices.

Group Health Association

Recommendation

To help ensure that it is receiving value for the funding it provides to the Group Health Association (Association), the Ministry should:

- *require the Association to provide it with sufficient information so the Ministry can assess whether the Association's programs and services were delivered efficiently and effectively;*
- *ensure that the accuracy of the Association's roster is verified periodically; and*

- *assess the reasonableness of the outside use of medical services by the Association's rostered patients and implement a process that enables the Ministry to reduce payments to the Association where warranted, as is currently done in the Health Service Organization Program.*

Current Status

According to the Ministry, the Ministry is negotiating a new contract with the Association to address the issues we reported in 2000, and these negotiations are to be finalized by September 30, 2002. The new agreement is to include mechanisms for verifying the roster. The Ministry also advised us of the following:

- The Ministry has requested a review of certain aspects of the Association's current operations to better understand how the Association operates and to address deficiencies as measured against government accountability guidelines. Details of the Association's program management, funding sources, and partnerships are also being requested to ensure effective service delivery.
- Established ministry programs are to be used as models for setting acceptable benchmarks and for initiating procedures to ensure the accuracy of the Association's roster and to assess and control the use of outside medical services by the Association's patients.

PRIMARY CARE NETWORK PROGRAM

Implementing Primary Care Networks

Recommendation

To help ensure that the PCN Program provides improved primary health care in a cost-effective manner, the Ministry should, in line with the planned expansion of the Program, carefully assess:

- *the interim reports on the evaluation of the PCN pilots;*
- *relevant experiences of other jurisdictions; and*
- *the results of the ministry-funded study comparing health-care utilization and costs in health service organizations and fee-for-service practices.*

Current Status

Primary care networks are now known as family health networks, which are supported by the Ontario Family Health Network (OFHN). The OFHN was created by the province in March 2001, and its role specifically includes providing family physicians with information, administrative support, and technology funding to support the voluntary creation of family health networks in their communities. According to the Ministry, the OFHN is the agency that will lead the expansion of family health networks.

The Ministry has received two formal reports on the evaluation of primary care reform pilots in Ontario. The evaluation reports were shared with the OFHN. The Phase 1 report assesses the implementation process and presents observations and findings to be considered in developing an implementation plan to encourage and support the expansion of family health networks. The Ministry indicated that this report will assist the OFHN in adjusting its ongoing support to the existing pilot networks if possible and assist physicians in the continuing operation of their networks. The Phase 2 report describes and assesses the progress that is occurring, the barriers to progress, and the opportunities for improvement. It examines results and presents recommendations in line with reform objectives. Its findings have been considered in implementing the new family health networks and in the continuing administration of the pilot networks.

Phase 3 is intended to evaluate reform results or outcomes: its main focus is to be the impact of primary care reforms in the pilot communities and the outcomes achieved by the pilots. The Phase 3 report is to provide a summary of key findings from all three phases of the evaluation, an assessment of goal achievement, and recommendations and is to bring together all of the evaluation's findings in order to formulate conclusions. We were advised that the OFHN and the Ministry have reviewed the draft Phase 3 report and have provided corrections regarding factual errors. The Ministry anticipates that the "final draft report will be released in the very near future."

The Ministry is continuing to participate on federal, provincial, and territorial committees that are studying primary care reform initiatives in other jurisdictions.

As mentioned earlier, ministry staff are working with the Centre for Health Economics and Policy Analysis to provide historical roster information that is needed to complete the study comparing health-care utilization and costs in home service organizations and fee-for-service practices.

Capitation Rates

Recommendation

To help ensure that funding of primary care networks is equitable, the Ministry should consider options, including those utilized by other jurisdictions, for adjusting capitation rates to equitably reflect the level of services being provided.

Current Status

According to the Ministry, the Centre for Health Economics and Policy Analysis (CHEPA) at McMaster University has completed a draft preliminary literature review of policy options for physician remuneration. CHEPA's paper includes options for adjusting capitation rates and a survey of how capitation rate modification has been addressed in other jurisdictions. We were advised that ministry staff have reviewed the paper and will be working with CHEPA to explore the potential use of a model developed by Johns Hopkins University that was pilot tested in British Columbia.

The Ministry advised us that its ongoing negotiations with the Ontario Medical Association have included an examination of the appropriateness of current capitation rates and means for the diversification of provider remuneration. This resulted in the development of two compensation models.

Referrals to Specialists

Recommendation

To help ensure that the process for referring patients to specialists is cost effective, the Ministry should:

- *determine whether different methods of funding primary health care affect referrals to specialists; and*
- *develop methods for monitoring and improving the quality of the referral process.*

Current Status

We were advised that the University of Toronto's Hospital Management Unit has been working with the Ministry to provide advice and recommendations on appropriate performance measures for PCNs that may include tracking of referral rates to specialists. Further details on this initiative are provided in the Performance Measurement and Reporting section of this follow-up report.

The Ministry, through the Ontario Health Insurance Plan (OHIP) system, has performed some preliminary analysis of rates and patterns of referrals by physicians to specialists with a view to a more extensive examination. The Ministry indicated that it is establishing linkages between the University of Toronto and the Ministry's generic alternate payment programs projects to ensure that it will have a comprehensive and improved system to monitor performance, enhance accountability, and manage costs.

The Ministry also indicated that the evaluation of primary care reform pilots includes provider surveys that are intended to furnish qualitative information on referral patterns.

Interdisciplinary Primary Health Care

Recommendation

To help ensure that PCNs deliver cost-effective primary health care, the Ministry should:

- *thoroughly evaluate the experiences of other jurisdictions to identify best practices that warrant consideration in Ontario; and*
- *provide guidance on the combinations of health-care providers that are required to provide high-quality and cost-effective health care.*

Current Status

According to the Ministry, it continues to participate on federal, provincial, and territorial committees that are studying primary care reform initiatives, including interdisciplinary care models in other jurisdictions. The goal of this continued participation is to develop an appropriate strategy for Ontario.

We were advised that ministry staff and the Chair of the OFHN have met with a large number of groups representing health workers to obtain their input on collaborative health care. In addition, the Ontario College of Family Physicians has submitted a proposal to the OFHN regarding collaborative working relationships and the roles of nurse practitioners and other primary care disciplines that identifies factors that contribute to successful collaboration and makes recommendations regarding liabilities and funding issues. The Ministry advised us that it has applied to the federal government for funding from the Primary Health Care Transition Fund and that it is intending to more than double the number of nurse practitioners working in Ontario. The Ministry anticipates that many of these positions will be placed in family health networks.

Roster Limits and Verification

Recommendation

To help ensure that roster limits are reasonable, the Ministry should research best practices in other jurisdictions and establish a sound basis for setting PCN roster limits.

The Ministry should also ensure that an effective verification process is implemented for PCN patient rosters.

Current Status

According to the Ministry, roster limits in the current primary care pilots as well as experiences in other jurisdictions are to be evaluated to determine how to set appropriate roster limits. The Ministry's current agreement with the Ontario Medical Association states that family health network template agreements will have no roster limits if a physician personally and directly provides the majority of primary care medical services to the patients rostered to that physician.

Annual audits to verify each family health network's physician's roster of enrolled patients are to be conducted either by the Ministry or the Ontario Family Health Network. Family health network agreements also contain a provision for enrolment verification beyond annual audits. Roster verification is to include letters to patients, the listing of patients who have been selected for enrolment verification, and random audits to ensure that patient letters are kept on file by the physician. The Ministry indicated that changes to the OHIP system are to be made to support the enrolment verification process. The Ministry expects that the first enrolment verification cycle will be completed by the fall of 2002, at which time the cycle will be repeated.

Performance Measurement and Reporting

Recommendation

To enable it to assess the quality of care provided by PCNs, the Ministry, in collaboration with primary health-care providers, should develop:

- *appropriate performance measures and standards; and*
- *a health performance information system that meets the needs of the Ministry and PCNs.*

Current Status

As mentioned earlier, we were advised that the Ministry has been working with the University of Toronto to develop appropriate performance measures for PCNs. These may include tracking of referral rates to specialists, waiting times, and services provided by nurse practitioners, as well as other measures. This research included input from experts. In June 2001, a report was presented to the Ministry indicating outcomes, identifying performance issues, and making recommendations.

Over the next two years, the University is to field-test performance indicators by identifying barriers to data collection and suggesting means to overcome the barriers. The testing is also intended to provide an opportunity to develop performance measures from the indicators identified, identify data sources, and investigate possible standards for the indicators. A seminar for primary care physicians on these performance indicators is to be developed.

The Ministry indicated that it has begun work on the Generic Alternate Payment Programs project to develop systems and business practices to enhance development, management, enforcement, payment, and accountability. The project team has begun its work to review alternative payment contracts and data-capture systems with the intent of developing and implementing processes for standardized alternative payment contracts. Linkages are also to be established to ensure that the Ministry will have a comprehensive and improved system to monitor performance, enhance accountability, and manage costs.

MINISTRY OF HEALTH AND LONG-TERM CARE

4.11–Ontario Midwifery Program

(Follow-up to VFM Section 3.11, *Special Report on Accountability and Value for Money*—2000)

BACKGROUND

On December 31, 1993, midwifery became a regulated health profession in Ontario. The *Midwifery Act* defines the practice of midwifery as the assessment and monitoring of women during pregnancy, labour, and the post-partum period and the provision of care to women and their babies during normal pregnancy, labour, and post-partum period.

The Ontario Midwifery Program was established in 1994 to fund professional midwifery services. Based on information provided by midwifery practice groups, the Ministry estimated that midwives attended approximately 6,000 births in the 2000/01 fiscal year. The Ministry expects that, by the 2003/04 fiscal year, midwives will be attending about 12,000 births annually in the province.

For the 2001/02 fiscal year, the Ministry provided approximately $28.6 million to fund the provision of midwifery services. In 1999/2000, it provided $17 million.

In our *Special Report on Accountability and Value for Money* (2000), our major concerns with the Midwifery Program were:

- There was a lack of adequate information to determine whether the objectives of the Program were being met.
- The Ministry had not assessed the cost-effectiveness of the delivery and funding model for midwifery services.
- The process for referring midwifery clients to specialists may have been creating additional costs for the health-care system.

We made a number of recommendations for improvement and received commitments from the Ministry that it would take corrective action.

CURRENT STATUS OF RECOMMENDATIONS

According to information obtained from the Ministry, the Ministry has taken some action on all of the recommendations we made in our *Special Report on Accountability and Value for Money* (2000). The current status of each of our recommendations is as follows.

ASSESSING COST EFFECTIVENESS

Recommendation

To help assess the quality of midwifery services and assess whether these services are delivered efficiently and effectively, the Ministry, along with the College of Midwives of Ontario and the Association of Ontario Midwives, should:

- *determine what information is needed to make these assessments; and*
- *ensure that the information is collected and analyzed.*

Current Status

We were advised by the Ministry that in June 2002 it completed a feasibility study on a midwifery management information system, which it worked on with the Association of Ontario Midwives, the College of Midwives of Ontario, and the Midwifery Education Program. The Ministry indicated that it will implement the study's recommendations in phases beginning in the 2002/03 fiscal year.

EQUITABLE ACCESS

Recommendation

To determine whether the Midwifery Program is meeting its objective of ensuring greater equity of access to midwifery services, the Ministry should:

- *clearly define the meaning of "greater equity of access";*
- *assess the impact of the allocation of midwifery services in the agreements between local agencies and midwifery practice groups;*
- *review the arrangements that permit midwives to have private clients; and*
- *clearly define "resident" for the purposes of eligibility for publicly funded midwifery services.*

Current Status

We were advised that, as a first step to measuring access to midwifery services, the Ministry requires that local agencies report to it the source of the referral for clients obtaining midwifery care. This enables the Ministry to track the means of access to midwifery services. In addition, to monitor access to midwifery services, the Ministry also requires that local agencies report to it the number of clients being cared for by ministry-funded midwifery practice groups.

The Ministry indicated that it continues to monitor client access to midwifery services. Data continue to show that current agency referral patterns and the arrangements allowing midwives to have private clients are not interfering with the general population's access to publicly funded midwifery services. However, demand for midwifery services continues to exceed the supply of midwives.

The Ministry advised us that it will continue to monitor access by reviewing data supplied by agencies on a quarterly basis.

The Ministry indicated that although the midwifery definition of resident is not identical to that of the *Health Insurance Act*, upon review, the Midwifery Program definition provides the most appropriate level of access to midwifery services for the population being served.

REFERRALS TO SPECIALISTS

Recommendation

The Ministry should ensure that the current process for referring clients of midwives to specialists does not result in unnecessary visits to family physicians or hospital emergency departments.

Current Status

The Ministry, in collaboration with the Ontario Medical Association and the Association of Ontario Midwives, established, effective April 1, 2002, new fee codes under the Ontario Health Insurance Plan's Schedule of Benefits that permit the same compensation to specialist physicians for midwife requests as for requests for consultation by physicians. According to the Ministry, this will alleviate the barrier that prevented midwifery clients from directly accessing specialists.

MANAGEMENT BOARD SECRETARIAT

4.12–Movable Assets

(Follow-up to VFM Section 3.12, *Special Report on Accountability and Value for Money*—2000)

BACKGROUND

Ministries' movable assets consist primarily of office furniture and equipment, such as photocopiers and fax machines; information technology (IT) equipment, including desktop and notebook computers, printers and other peripherals; audio-visual equipment, such as televisions, VCRs, and cameras; and motor vehicles.

During the 1998/99 fiscal year—the last year for which this information was available—all ministries spent approximately $500 million on movable assets, much of which was spent on IT equipment in preparation for Y2K. However, the total value, type, and quantity of movable assets on hand were not known because ministries did not keep adequate records in that regard.

In 2000, we conducted our audit work at five ministries and issued a detailed report to each deputy minister of the ministries included in our scope. In addition, since Management Board Secretariat (MBS) develops government-wide policies and standards for acquiring and managing movable assets and had entered into a number of government-wide standing agreements for IT equipment acquisitions, we summarized in Section 3.12 of the *Special Report on Accountability and Value for Money* (2000) the more significant issues addressed in the individual ministry reports.

We concluded that although ministries generally followed the process recommended by MBS for acquiring IT equipment and used the MBS standing agreements with various manufacturers for their equipment acquisitions, doing so did not ensure that they received value for money spent because:

- communication between MBS and the ministries regarding the pricing provisions under the MBS standing agreements was insufficient to ensure that ministries were obtaining the best prices;
- there was no requirement for the ministries to demonstrate that the makes and models of equipment acquired were the most appropriate and cost effective for their needs; and
- the cost effectiveness of leasing as the preferred option for most of the equipment acquired was not established, and the terms of the standing lease agreement were not competitively entered into nor was value for money achieved as a result of prepaying or overpaying lessors.

We also concluded in 2000 that movable assets were not adequately managed because:

- accurate and up-to-date listings of all owned and leased movable assets were not maintained;
- the existence and efficient deployment of movable assets were not periodically verified; and
- missing or underutilized assets were not followed up on a timely basis.

We made a number of recommendations for improvement and received commitments from MBS and the ministries that they would take corrective action.

CURRENT STATUS AND RECOMMENDATIONS

MBS had taken or was in the process of taking corrective action on our two published recommendations. Their status as of June 30, 2002 is as detailed in the following sections.

ACQUISITION OF INFORMATION TECHNOLOGY EQUIPMENT

Information Technology Equipment Pricing

Recommendation

To ensure that ministries acquire IT equipment in compliance with Management Board of Cabinet directives, Management Board Secretariat (MBS) should work with ministries to ensure competitive prices are achieved until a new competitive pricing structure is established through implementation of the proposed Total Cost of Ownership concept.

Current Status

We were advised that MBS received Management Board of Cabinet approval in June 2002 for its government-wide desktop equipment and services strategy. A request for proposals to establish the corporate desktop management services and products vendor-of-record arrangement is scheduled to be issued in August 2002. The use of this vendor-of-record (VOR) arrangement will be mandatory for all Information and Information Technology clusters and ministries, with the exception of designated "optional services", which may also be provided by internal Ontario Public Service staff. Examples of such optional services include: installation and de-installation of desktops; moves, adds, and changes; maintenance and break-fix services; virus eradication; and software control and distribution.

The VOR agreement is designed to ensure that pricing is continuously in line with market conditions to provide best value for money spent. Such pricing is to be validated through regular benchmarking. This initiative is intended to lead to lower support and application costs and an overall lower total cost of ownership.

MBS also established an interim policy in November 2000 that provides direction regarding the use of existing VOR agreements and that, in particular, requires buyers to aggregate their demand in order to achieve volume discounts through a formal second-stage competitive process.

Information Technology Equipment Leasing

Recommendation

To help ensure that IT acquisitions are financed in an economical manner, as required by Management Board of Cabinet directive, MBS should:

- *formally assess the desirability and cost effectiveness of leasing IT equipment in comparison to other forms of financing or purchasing; and*
- *follow a competitive process when renewing its standing agreement for lease-financing services.*

Current Status

In the fall of 2001, MBS financial analysts compared the total cost of ownership of desktop assets under both a lease and purchase scenario using data from two IT clusters. This comparison revealed that, while there was not a material difference between the lease and purchase scenarios over the standard three-year asset life cycle, the leasing scenario did provide a slight cost advantage. In addition, MBS noted a number of other advantages associated with leasing.

With respect to the second part of the recommendation, MBS advised us that it had completed a competitive procurement process to establish a new corporate agreement for lease-financing services for IT equipment. The agreement came into effect on February 1, 2002 and is mandatory for use by all IT clusters and all ministries.

In the agreement, five vendors have been selected to provide financing services to ensure that there is continuous competition among those vendors to provide optimal lease rates. All five vendors have agreed to identical terms and conditions in order to ensure consistency in leasing practices and asset management. All existing contracts are in the process of being replaced by this agreement.

MINISTRY OF NATURAL RESOURCES

4.13–Forest Management Program

(Follow-up to VFM Section 3.13, *Special Report on Accountability and Value for Money*—2000)

BACKGROUND

Under the *Crown Forest Sustainability Act 1994*, the Ministry is responsible for ensuring the long-term health of Ontario's Crown forests. However, under the Act, licensed forest management companies became directly responsible for forestry planning, harvesting, and renewal. The legislation also includes sanctions and penalties for non-compliance by forest management companies. The Ministry's role in ensuring the long-term health of Crown forests is progressively becoming one of overseeing the activities of forest management companies.

In the 2001/02 fiscal year, the Ministry spent $58.7 million on forest management. In 1999/2000, it spent $70.8 million.

In 1999/2000, the Ministry had collected stumpage charges totalling $155.7 million. In addition, two trusts set up to reimburse forestry management companies for renewal expenditures paid out an additional $104.8 million for forest renewal and related activities.

In our *Special Report on Accountability and Value for Money* (2000), we concluded that the Ministry did not have sufficient information to adequately meet its obligation to annually report on the management of Ontario's Crown forests. In addition, the Ministry had not yet completed its transition from directly managing many aspects of forestry to implementing appropriate oversight and monitoring procedures to ensure that forestry companies comply with legislation and ministry policy and that the long-term health of Ontario's Crown forests is managed with due regard for economy and efficiency. Specifically, at that time we noted:

- The Ministry had not reported annually on the management of Ontario's Crown forests as required by the Environmental Assessment Board. In addition, sufficient information was unavailable in some forest management units to properly assess the *harvest area successfully renewed*, which is a key measure of forest sustainability.
- Over half the district offices reported that forest management companies had significantly over- or under-harvested. The actual harvests over the past six years for each of the 68 management units had ranged from 20% to 122% of planned levels.
- In areas where the Ministry had continued to perform compliance inspections after the responsibility for such inspections was delegated to the forest management companies, ministry inspectors were finding significantly more violations than industry inspectors.

- Ministry district offices had been inconsistent in imposing penalties for non-compliance and stricter penalties were likely warranted where warnings and less severe measures were not having the desired deterrent effect.

Accordingly, we made a number of recommendations to improve the Ministry's procedures for ensuring the long-term health of Ontario's Crown forests and received commitments from the Ministry that it would take corrective action.

CURRENT STATUS OF RECOMMENDATIONS

Based on information received from the Ministry, some action has been taken on all of the recommendations made in our *Special Report* (2000). The current status of each of our recommendations is outlined below.

MEASURING AND REPORTING ON FOREST SUSTAINABILITY

Reporting Requirements

Recommendation

The Ministry should report annually on the management of Crown forests, as required under the Environmental Assessment Act, *so that any necessary corrective action can be taken on a timely basis.*

Current Status

The Ministry informed us that annual reports on forest management have been released for the years 1996/97 through to 1999/2000 and that they intend to continue producing this report annually and to release it within the eighteen months following the end of the fiscal year. In addition the *2001 State of the Forest Report* (covering 1995–2000) was tabled in the Legislature and released to the public in 2002 (state of the forest reports are required every five years).

Measures Of Effectiveness

Recommendation

To ensure that sound conclusions can be drawn on the state of renewal of Ontario's Crown forests, the Ministry should require that the necessary forest assessments be carried out in each forest management unit.

Current Status

The Ministry informed us that a number of procedures have been put into place to assess key forest performance measures, such as the *harvest area successfully renewed*. For instance, the *Forest Information Manual* was approved by regulation under the *Crown Forest Sustainability Act* on April 25, 2001; and this manual outlines the requirements for forest renewal assessment and reporting. In addition, the Ministry released the *Silvicultural Effectiveness Monitoring Manual* for Ontario in November 2001. This manual describes the requirements and expectations for forest regeneration objectives, renewal survey methodologies, and the reporting of silviculture effectiveness.

The Ministry will continue to rely on the comprehensive, independent audits that are performed on each forest management unit every five years. These audits provide an assessment of the success of forest renewal and of the health of the management unit's forests.

Finally, the Ministry informed us that in 2001, independent audits were conducted in 20 of the 68 forest management units, and all 20 units reported on the harvest area successfully renewed.

FOREST MANAGEMENT OPERATIONS

Forestry Information

Recommendation

To comply with legislation and the 1994 requirements of the Environmental Assessment Board and to assist in forestry planning and monitoring, the Ministry should:

- *produce the required forest information manual to establish policies regarding the collection of forest resources inventories; and*
- *implement adequate oversight procedures to ensure that forest inventory information is accurate, publicly available, and up-to-date for each forest management unit.*

Current Status

The *Forest Information Manual*, as previously noted, was completed and approved by regulation on April 25, 2001. This manual prescribes policy direction regarding the creation, maintenance, and provision of inventories for forest resources; and it describes a detailed process for companies to provide information in a timely fashion and in a standard and consistent format. With respect to the information being provided, the manual outlines required forest information, standards for data composition, and the roles and responsibilities of the Ministry and the forest management companies for the development and provision of access to forest information.

In addition, the Ministry informed us that a review was carried out on the strategic direction of the forest resources inventory program, and the Ministry is implementing the key recommendations from this review. One of the key recommendations is that the Ministry maintain control and oversight responsibility for the following program functions: co-ordination, the setting of policy and standards, quality control, quality assurance, and training and development.

Planning And Harvesting

Recommendation

To help ensure that forest management units are managed on a sustainable basis and harvest operations are carried out in accordance with approved plans, the Ministry should require:

- *a thorough quantitative analysis of all substantial variations between planned and actual harvests; and*
- *specific conclusions and recommendations for corrective action whenever there are significant variations from planned harvest volumes.*

Current Status

The Ministry informed us that forest management companies are now required to submit actual harvest levels each year through the forest management unit's annual report. In addition, forest management companies are required to prepare a quantitative analysis of any significant variations between planned and actual harvest levels based on their five-year forest management plans. This analysis is to include conclusions and recommendations for action that are to be incorporated into the next five-year forest management plan.

In addition, any recommendations from independent audits relating to significant variances between planned and actual harvests are to be addressed by the forest management companies and the Ministry. In each case, an action plan is to be prepared that includes specific commitments and timelines to address the recommendations.

Forest Resource Processing Facilities

Recommendation

To promote sustainable forest management practices and optimize economic opportunities, the Ministry should ensure that:

- *all operating mills are licensed, as required by the* Crown Forest Sustainability Act*;*
- *the required annual information reports from mills are complete and received on a timely basis; and*
- *forest management company plans consider market demand as well as the capacities and requirements of the local mills.*

Current Status

The Ministry informed us that it has implemented new procedures for the application for, and review and issuance of, licences for forest resource processing facilities. The Ministry is also investigating a more streamlined approach to deal with company mergers and acquisitions—which were a major cause of facilities operating without a current licence. As well, licences can now be issued for one to five years (compared to the previous one-year licences).

With respect to annual information reports from mills, the Ministry informed us that regional forestry staff work closely with district staff to ensure that all licensed facilities submit their annual returns within the timeframe required by the terms and conditions of their licences. In addition, towards the end of the 2002/03 fiscal year, the Ministry expects to begin allowing mills to apply for licences and submit their information reports using electronic means.

The Ministry informed us that it will assess forest management plans to ensure they include and reflect a consideration of projected market demand for wood and the capacities and requirements of local mills.

Forest Renewal and Maintenance

Recommendation

To ensure that all forestry companies manage their units on a sustainable basis and achieve sufficient renewal success, the Ministry should:

- *require companies to identify, explain and report on major variations between actual and planned renewal and maintenance activities; and*
- *identify units where the renewal and maintenance work consistently falls short of target levels and implement corrective action to help achieve renewal success.*

Current Status

The Ministry indicated that the *Forest Management Planning Manual* requires that planned and actual renewal activities be documented in forest management plans, annual work schedules, and management unit annual reports. Ministry staff will now assess the level of reported renewal and maintenance activities and compare this level to corresponding plans. When there are major discrepancies, the Ministry will require forest management companies to provide explanations along with an action plan for addressing the shortfalls.

The Ministry also informed us that it continues to rely on the results of the independent audits to assess how well the forests are being renewed and the level of renewal survey activities being carried out. Any significant problems that are noted must be addressed with an action plan prepared by ministry and company staff. Subsequently, a two-year progress report is to be prepared that reports on the implementation status of the required corrective action.

COMPLIANCE MONITORING

Compliance Inspections

Recommendation

To help ensure compliance with the Crown Forest Sustainability Act *through an effective and economical inspection process, the Ministry should:*

- *identify areas at high risk of non-compliance where ministry inspection staff should focus their efforts;*
- *provide forest management companies with information based on previous ministry experience and analysis of trends in violations and non-compliance to help them improve their forest compliance plans;*
- *where necessary, monitor and upgrade the skills of forest management company inspectors; and*
- *assess the inspection process as it is currently operating and resolve any concerns that have resulted from the transfer of inspection responsibilities to the industry.*

Current Status

The Ministry informed us it was in the process of enhancing the risk-based assessment process in its compliance, planning, and monitoring programs. For instance, the Ministry now requires that district compliance plans prioritize areas for mandatory spot checks and audits by qualified compliance inspectors. As well, the Ministry will annually review and approve the forest industry compliance plans to ensure that areas at higher risk of non-compliance are identified for inclusion in the forest management company's inspection and reporting procedures.

According to the Ministry, it is committed to providing forest management companies with information that is based on its own inspection experience. During the development and approval of company compliance plans, the Ministry's district office staff will identify trends in non-compliance and violations to ensure that the company's inspection procedures address problems noted in past inspections.

Finally, in 2000/01, the Ministry implemented a competency-training program for ministry and industry inspectors and intends to implement mandatory testing and certification standards for its staff. (The training program is not mandatory for industry staff.) The Ministry indicated that the vast majority of industry inspectors participating in the training courses have opted for certification. The training and certification processes are designed to raise the skill levels of ministry and industry inspectors and assist in enhancing the accuracy and consistency of the inspection process.

Enforcement

Recommendation

To improve overall compliance with the Crown Forest Sustainability Act *and protect Ontario's forests from activities that could impair forest sustainability, the Ministry should:*

- *implement procedures to ensure that the information recorded in the compliance system is complete and can be used for management decision-making purposes, such as identifying and tracking repeat offenders;*
- *review the enforcement approaches used by district offices to ensure that penalties are imposed in a consistent manner; and*
- *analyze the extent of specific violations to identify trends and areas where more severe penalties or other corrective action may be required.*

Current Status

The Ministry informed us it is currently reviewing the functionality of all of its compliance reporting systems.

In addition, the Ministry is examining the mechanisms used to track trends and repeat offenders as well as monitoring for consistency in the application of penalties. For example, historical enforcement information will be used where data is available to compare offences noted and penalties imposed by different ministry district offices.

FORESTRY TRUSTS

Recommendation

To ensure that the Forest Renewal and Forestry Futures trusts are administered in accordance with trust agreements, policy, and legislation, the Ministry should:

- *monitor Forest Renewal Trust account balances to ensure that each forest management company maintains the minimum balance required so that funds will be available for renewal activities when needed;*
- *ensure that forestry charges are transferred to the Forestry Futures Trust on a timely basis; and*
- *ensure that payments from the Forest Renewal Trust are made only after the required final invoice report is received.*

Current Status

The Ministry informed us that staff now track revenue and expenditures related to the Forest Renewal Trust. The monthly account statements are reviewed and compared to the minimum balances. Quarterly summaries are provided to district staff, and when accounts contain less than the minimum balance, companies are contacted to correct the deficiency.

In April 2000, to ensure more timely transfers between trust accounts, the Ministry and the trustee changed the process so that Crown charges are now transferred directly to the Forestry Futures Trust. In addition, final payments from the Forest Renewal Trust are to be made only after the required final invoice report is received. This requirement has been reinforced with the trustee and compliance with it will be monitored by the Ministry.

FORESTRY REVENUE

Recommendation

To ensure that the province receives the proper amounts of revenue, the Ministry should systematically address any recurring problems noted through its audit examinations of stumpage charges.

Current Status

The Ministry informed us that it continues to carry out audits for timber measurement and related stumpage charges for 15 to 20 companies a year. Any company where problems with bills of lading have been noted through audits will be subject to a follow-up inspection within 30 days. In addition, new computer software was introduced in the Timber Resources Evaluation System to track bills of lading and to use the information for verification and audit purposes.

With respect to private wood—which is not subject to stumpage charges—the Ministry implemented new procedures that place the onus on the private landowner to remit and the receiving forest company to obtain proof of private land ownership.

4.14–Ontario Native Affairs Secretariat

(Follow-up to VFM Section 3.14, *Special Report on Accountability and Value for Money*—2000)

BACKGROUND

The Ontario Native Affairs Secretariat works with First Nations, Aboriginal organizations, and businesses to build strong, prosperous, and self-reliant Aboriginal communities. The Secretariat conducts land-claim negotiations on behalf of the province, implements land-claim settlements, provides core and capital funding for Aboriginal organizations and projects, and fosters Aboriginal economic development. Expenditures directly managed by the Secretariat for the 1999/2000 fiscal year were $18.7 million, and comparable expenditures for the 2001/02 fiscal year were $16.2 million.

In our *Special Report on Accountability and Value for Money* (2000), we found that although the value of land claim settlements was adequately supported by independent evaluations or other evidence, improvements were needed in the timeliness of reporting and accountability by First Nations for the use of funding provided to them for land claim negotiation costs.

For the two capital programs funded by the Secretariat but delivered by two other ministries, we found that secretariat monitoring was inadequate and that the arrangement whereby the Secretariat funded but ministries delivered these programs blurred the lines of accountability.

In its advisory role, the Secretariat helps co-ordinate Aboriginal-specific programs delivered by other ministries. Expenditures for these programs exceeded $370 million annually. We concluded that the Secretariat needed to improve the timeliness of, accessibility to, and level of detail in its database of information on these programs.

Accordingly, at that time we made a number of recommendations for improvement and received commitments from the Secretariat that it would take corrective action.

CURRENT STATUS OF RECOMMENDATIONS

Based on information obtained from the Secretariat and our review of this documentation, the Secretariat has been proactive in addressing our recommendations and some have been substantially implemented. The current status of the Secretariat's action on each of our recommendations is as follows.

LAND CLAIMS

Negotiation Funding

Recommendation

To improve accountability for the funding of Aboriginal land claim negotiation costs, the Secretariat should:

- *consider holding back a percentage of each year's funding until it has received the required final reports and audited financial statements for that year;*
- *establish a standard format for financial reports and audited financial statements to facilitate analysis of significant variances from budget and identification of ineligible expenditures and funding surpluses; and*
- *fund projected negotiation costs only through the contribution agreement process.*

Current status

Since our 2000 audit, the Secretariat issued a new negotiation funding guideline, which introduced a provision to hold back 15% of the annual funding, to be released once the Secretariat has reviewed and approved the required final financial reports and the audited financial statements.

The Secretariat has also developed new standardized reporting requirements for annual budget submissions, financial reports, and audited financial statements. These new requirements have been incorporated into the 2001/02 contribution agreements. The required formats for the financial reports and the audited financial statements were also outlined in the contribution agreements.

Finally, in March 2001, the Director of the Secretariat's negotiation branch issued a memo to all negotiators, directing them to make every effort to avoid paying projected negotiation costs as part of a settlement.

Land-claim Costing

Recommendation

To assist with the evaluation of future land claims and enhance accountability for the cost-effectiveness of the program, the Secretariat should identify and track the total cost of each land claim.

Current status

In addition to tracking transfer payments and other costs, such as professional services, for each individual land-claim negotiation, in 2001/02 the Secretariat began tracking the cost of the time worked on each land claim by negotiators and legal support staff.

PROGRAMS ADMINISTERED BY OTHER MINISTRIES

Recommendation

In order to eliminate unnecessary overlap of monitoring and administrative activities, the Secretariat should in future strive to avoid taking on funding responsibility for programs that more appropriately could be administered by other ministries.

While the current funding arrangements remain in place, the Secretariat needs to improve its monitoring of these programs in order to know whether they are functioning as intended or need corrective action.

Current status

We were advised by the Secretariat that, since our audit, it has not taken any new funding responsibilities for programs that could more appropriately be administered by other ministries.

The Secretariat signed a new partnership agreement with the Ministry of Northern Development and Mines (MNDM) specifying new standards for it to report progress on the Canada-Ontario Infrastructure Agreement, which MNDM administers for the Secretariat.

CORE FUNDING FOR ELIGIBLE ABORIGINAL ORGANIZATIONS

Recommendation

To improve the budgeting process and the monitoring of expenditures for the Aboriginal Organizations Core Funding Program, the Secretariat should ensure that:

- *budget submissions are sufficiently detailed to enable the Secretariat to provide funding commensurate with the demand for and value of the services to be provided; and*
- *all management letters are obtained, relevant issues identified, and significant control deficiencies are followed up on a timely basis.*

Current status

The three organizations that received core funding were informed in writing in June 2001 that budget submissions to the Secretariat had to provide more details on specific plans, projects, and anticipated outcomes. In addition, the Secretariat issued an "addendum regarding additional requirements for the 2001-2002 budget submission to Ontario's Aboriginal Organizations Core Funding Program" that specified the information to be included in the budget submissions.

However, core funding is still historically based. Each organization receives the same amount of funding from year to year, regardless of its plans or expenditure patterns. We were informed that the Secretariat is planning a program evaluation of the core funding program that will include an examination of the basis for funding levels.

In cases where significant control deficiencies are identified, the Secretariat requests and receives response letters from the core funding recipients that outline the steps they are taking to address the deficiencies.

CO-ORDINATION OF ABORIGINAL PROGRAMS

Information for Decision Making

Recommendation

To improve the usefulness of its database as a tool for government-wide co-ordination of provincial programs and services with expenditures of over $370 million delivered to Aboriginal residents, the Secretariat should:

- *obtain information on program services and results in addition to the financial information it currently collects;*
- *integrate the information obtained on the Building Aboriginal Economies Strategy and the Working Partnerships Program into the database; and*
- *take steps to make the database directly accessible to program managers in the 16 ministries delivering programs and services to Aboriginal residents.*

Current status

The Secretariat raised the database improvement issue with the Deputy Ministers' Committee on Aboriginal Issues. However, the committee concluded that there was insufficient benefit to justify the collection of additional information on program services and results for the Aboriginal expenditure database.

The Secretariat advised us that it will not include output-based information from the Building Aboriginal Economies Strategy in the expenditure database. However, it has begun tracking expenditures of participating ministries and combining this information with the results achieved from the Building Aboriginal Economies Strategy and the Working Partnerships Program.

The Secretariat informed the chief administrative officers of all ministries with Aboriginal expenditures in writing that the Aboriginal expenditure database information is available to program managers.

Building Aboriginal Economies Strategy

Recommendation

In order to properly assess the performance of the Building Aboriginal Economies Strategy, the Secretariat should ensure that reported results actually arise from Building Aboriginal Economies Strategy initiatives.

Current status

The Secretariat hired two consulting groups to review and assess the Strategy's data tracking systems at participating ministries. The consultants expressed concerns that were similar to those we expressed in our 2000 report regarding the accuracy of performance data for the Strategy that is collected by the Secretariat. One consultant made specific recommendations to improve four ministries' systems. The Deputy Ministers' Committee on Aboriginal Issues requested that the four ministries notify the Secretariat by January 11, 2002 as to whether they would implement the specific consultant's recommendations relating to their systems. At the time of our follow-up, two ministries had still not notified the Secretariat. We were informed that they subsequently complied with the request.

MINISTRY OF TRANSPORTATION

4.15–Monitoring School Purpose Vehicle Safety

(Follow-up to VFM Section 3.15, *Special Report on Accountability and Value for Money*—2000)

BACKGROUND

In conjunction with our audit of pupil transportation grants provided to school boards by the Ministry of Education, we determined that it was important to also consider the Ministry of Transportation's role in ensuring that pupil transportation is safe.

We concluded that the Ministry could and should strengthen its systems and procedures for ensuring that operators of school purpose vehicles comply with legislative and regulatory safety requirements. In particular, the Ministry had not captured the information needed to ensure that:

- all school buses were subject to being selected for inspection; and
- those operator facilities and inspection stations posing the highest risk of non-compliance were selected for audit.

We also concluded that the Ministry had not sufficiently communicated the nature, extent, and results of its enforcement activities to school boards and needed to co-ordinate efforts with them so that all safety risks are addressed and appropriate actions taken.

We made several recommendations for improvement and received commitments from the Ministry that it would take corrective action.

CURRENT STATUS OF RECOMMENDATIONS

Based on the information provided to us by the Ministry of Transportation, the Ministry has taken some action to implement each of the recommendations made in our *Special Report on Accountability and Value for Money* (2000). The current status of each of our recommendations is outlined below.

STRENGTHENING ENFORCEMENT PROCEDURES

Recommendation

To obtain reasonable assurance that school bus operators are complying with legislative and regulatory requirements, the Ministry should:

- *establish assurance objectives for its audit/inspection program and determine resource requirements based on these objectives;*
- *document and periodically assess whether its audit and inspection methods are appropriate and sufficient;*
- *make greater use of information systems technology to better focus audit and inspection activities on high-risk operators;*
- *establish reporting and monitoring procedures that allow management to ensure enforcement personnel throughout the province are conducting audit/inspection activities in accordance with the Branch's policies; and*
- *establish follow-up procedures to verify that school bus operators take timely action to correct problems detected by audits of facilities and Motor Vehicle Inspection Stations.*

Current Status

The Ministry advised us that it had addressed our recommendations through revisions to its audit/inspection procedures, improvements in management review and results-reporting procedures, and the development of a Bus Information Tracking System (BITS). The Ministry expected to complete the input of detailed information about each bus operator and each vehicle in the operator's fleet by the end of 2002. Enforcement officers are to input the results of their enforcement activities into the BITS starting in September 2002.

The Ministry was expecting that by mid-2004 the BITS would contain a sufficient history of enforcement results to enable the Ministry to utilize the system to help identify and target high-risk operators and to contribute to earlier intervention by enforcement officers where warranted. Until that time, the Ministry advised us that its enforcement staff will continue to target high-risk operators using local knowledge of operators in their area.

ESTABLISHING A PROTOCOL FOR CO-OPERATION WITH SCHOOL BOARDS

Recommendation

To better ensure that timely action is taken to enforce pupil transportation safety requirements, the Ministry should work with school boards to develop a protocol that sets out the expectations of each party and establishes procedures to co-ordinate activities and exchange the results of their work.

Current Status

The Ministry had developed, in co-operation with the Ontario Association of School Business Officials, a protocol that, when fully implemented, would address our recommendation. This protocol has been shared with the Ontario School Bus Association and is intended to serve as an effective deterrent to the operation of unsafe school purpose vehicles. The Ministry was expecting that the protocol would be in force starting in the 2002/03 school year.

CHAPTER FIVE

Public Accounts of the Province

INTRODUCTION

The Public Accounts for each fiscal year, ending March 31, are prepared under the direction of the Minister of Finance as required by the *Ministry of Treasury and Economics Act*. The Act requires the Public Accounts to be delivered to the Lieutenant Governor in Council for presentation to the Legislative Assembly not later than the tenth day of the first session held in the following calendar year. The Public Accounts are typically tabled in the early fall of each year.

The financial statements of the province, which are included in the Public Accounts, are the responsibility of the Government of Ontario. This responsibility encompasses ensuring the integrity and fairness of the information presented in the statements, including the many amounts based on estimates and judgment. The government is also responsible for ensuring that an established system of control with supporting procedures is in place to provide assurance that transactions are authorized, assets are safeguarded, and proper records are maintained.

I audit and express an opinion on the financial statements of the province. The objective of my audit is to determine, with reasonable assurance, whether the financial statements are free of material misstatement—that is, that they are free of significant errors or omissions. The financial statements, along with my Auditor's Report on them, are included in the province's annual report and provided in a separate volume of the Public Accounts.

In addition to the financial statements, the province's annual report presents summaries and analyses of the province's financial condition and fiscal results. As such, it enhances the fiscal accountability of the government to both the Legislative Assembly and the public.

The Public Accounts also include three supplementary volumes:

- Volume 1 contains the Consolidated Revenue Fund schedules and ministry statements. These schedules and statements reflect the financial activities of the government's ministries on a modified cash basis of accounting.
- Volume 2 contains the financial statements of significant provincial Crown corporations, boards, and commissions that are part of the government's reporting entity, and other miscellaneous financial statements.

- Volume 3 contains further details of public expenditures as well as the Ontario Public Service senior salary disclosure.

I review the information in the annual report and the three supplementary volumes for consistency with the information presented in the financial statements.

Legislative changes to the Act have been made with respect to the Public Accounts reporting process. Effective April 1, 2003, the Public Accounts will be redefined to consist of an Annual Report that combines the existing annual report and the financial statements. This combined report, except in extraordinary circumstances, is to be delivered to the Lieutenant Governor in Council on or before the 180th day after the end of the fiscal year. The Lieutenant Governor in Council must then either lay the Public Accounts before the Assembly, or, if the Assembly is not in session, make the Public Accounts public and lay them before the Assembly on or before the tenth day of the next session.

With regard to the three supplementary volumes, except in extraordinary circumstances, these must be submitted to the Lieutenant Governor in Council before the 240th day after the end of the fiscal year. The Lieutenant Governor in Council must then lay the information before the Assembly, or, if it is not in session, lay it before the Assembly on or before the tenth day of the next session.

THE PROVINCE'S 2001/02 FINANCIAL STATEMENTS

The *Audit Act* requires that in my Annual Report I report on the results of my examination of the province's financial statements as reported in the Public Accounts. I am pleased to report that my Auditor's Report to the Legislative Assembly on the financial statements for the year ended March 31, 2002 is clear of any qualifications or reservations and reads as follows:

> To the Legislative Assembly of the Province of Ontario
>
> I have audited the statement of financial position of the Province of Ontario as at March 31, 2002 and the statements of revenue, expenditure, and net debt and of cash flows for the year then ended. These financial statements are the responsibility of the Government of Ontario. My responsibility is to express an opinion on these financial statements based on my audit.
>
> I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. The audit also includes

assessing the accounting principles used and significant estimates made by the Government, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Province as at March 31, 2002 and the results of its operations and its cash flows for the year then ended in accordance with accounting principles recommended for governments by the Canadian Institute of Chartered Accountants. As required by Section 12 of the *Audit Act*, I also report that, in my opinion, after the restatements explained in Note 2 to the financial statements, these accounting principles have been applied, in all material respects, on a basis consistent with that of the preceding year.

[signed]

Toronto, Ontario
September 10, 2002

Erik Peters, FCA
Provincial Auditor

THE GOVERNMENT REPORTING ENTITY

One of the most critical aspects of reporting on a government's financial affairs is deciding which entities—including agencies, Crown-controlled corporations, boards, commissions, and other organizations receiving transfer payments—should be included in the government's financial statements. Inclusion essentially means that an entity's operating results and its assets and liabilities are consolidated with or otherwise incorporated into the government's financial statements and form part of the government's annual surplus or deficit and its net assets or liabilities.

Currently, the Ontario government prepares its financial statements in accordance with the accounting principles recommended for governments by the Public Sector Accounting Board (PSAB) of the Canadian Institute of Chartered Accountants. A key objective of PSAB's standards, particularly its reporting entity standard, is to assist governments in preparing financial statements that account for the full nature and extent of the financial affairs and resources for which it is responsible. The current reporting entity standard recommends that entities should be included in the government's financial statements if: (1) they are accountable for the administration of their financial affairs and resources either to a minister of the government or directly to the Legislature and (2) they are owned or controlled by the government.

In following PSAB's reporting entity standard, Ontario's financial statements specifically include, in addition to all government ministries, the activities of twenty-seven of its most significant organizations, such as Ontario Power Generation Inc., Hydro One Inc., the

Ontario Electricity Financial Corporation, the Ontario Lottery and Gaming Corporation, the Liquor Control Board of Ontario, GO Transit, and the Ontario Housing Corporation. Less significant government organizations are reflected in the financial statements through the accounts of the ministries responsible for them.

PSAB's current reporting entity standard is being differently interpreted and applied throughout Canadian jurisdictions, particularly among provincial governments. Key to these different interpretations is whether the reporting entity standard currently does include, or should be amended to include, a number of significant public-sector or quasi-public-sector institutions, most of which are primarily funded by provincial governments but operate outside of the government ministry and agency structure. Historically, the majority of these institutions have often been collectively referred to as forming the SUCH sector (for school boards, universities, colleges, and hospitals). Another area of debate is special-purpose agencies, such as trusts or foundations that have recently been created in some jurisdictions, typically to act as financial intermediaries. These agencies are often granted considerable sums of money by the government under a mandate to eventually pass on these funds via grants or transfers, often years later, to the actual intended recipients to support specific government programs.

In Ontario, SUCH-sector organizations are not included in the reporting entity because they are not considered to have met PSAB's inclusion criteria of accountability and ownership or control. Ontario also does not include in its reporting entity one major special-purpose agency, the Ontario Innovation Trust (the Trust). The Trust has received and is administering large sums of government money outside of the reporting entity. I have raised accounting and accountability concerns with respect to the Trust in this and in each of my last three reports.

With respect to Ontario's SUCH-sector institutions, many of these organizations are funded primarily, if not entirely, by the Ontario government and are economically dependent on it. Many are also subject to varying degrees of provincial control over their operations. These include many of Ontario's health-care organizations (for instance, hospitals, long-term-care facilities, community health centres, and community care access centres), its school boards, its colleges, and its universities. It should be noted that many of these institutions have considerable assets, liabilities (including long-term debt), revenues, and expenditures. If such agencies were included in the government's financial statements, it would have a significant impact on the province's reported financial position and its operating results.

This issue can perhaps best be presented through an example. In recent years, it has become increasingly clear that the government has significantly increased its control over the delivery of Ontario's elementary- and secondary-school programs. The provincial government, rather than local boards, now sets the local education tax rate. Such education taxes, raised from the local property tax base, are no longer provided directly to the local school boards for use in local schools. Rather, the Ontario government now redistributes such taxes throughout the province on a centrally determined basis. The government has further tightened controls over school-board operations by establishing legislation and policies in such key areas as allowable average class sizes, hours of instruction, province-wide curricula, and student testing. In response to projected illegal operating deficits, the government recently further increased its control by directly taking over three of the province's largest school boards. In effect, the Ministry of Education now centrally manages and controls the most significant aspects of the primary and secondary education system.

Despite these changes, school boards remain outside of the Ontario government's reporting entity. Local education taxes, which are effectively controlled by the Ontario government and amount to about $6 billion annually, are not included in Ontario's reported revenues. The actual education costs incurred by the boards in delivering education programs to Ontarians are also not included in the province's expenditures. Only transfer payments made directly by the province to school boards are reflected. School board capital debts, which are considerable, are not included as part of provincial debt even though the government has made a long-term commitment to fund these debt repayments. In addition, the school boards' capital assets and other assets and liabilities are not included in the province's financial statements.

To date, I have accepted the disclosure of grants to school boards as education expenditure as the fairest presentation in the financial statements of the province because the province has not yet adopted the PSAB accounting standards for recording tangible capital assets. Under current provincial accounting practices, if the financial statements of school boards were included, only the school boards' debt would be shown, not the value of the schools built with that debt. I would not consider that omission to result in a better financial presentation than the March 31, 2002 disclosure of grants to school boards as education expenditure. This situation is expected to change in the current fiscal year.

Effective with the financial statements for the year ending March 31, 2003, the province intends to adopt new PSAB accounting rules for tangible capital assets. One effect of this decision would be the ability to eventually fully consolidate the financial statements of school boards in the financial statements of the province—that is, when school boards' accounting practices for tangible capital assets allow this to be done. I urge that this financial consolidation be considered given the control exercised by the Ministry of Education over school boards. (PSAB's concept of "control" is discussed below.)

Although I have focused my discussion on school boards, similar reporting entity issues exist for other SUCH-sector institutions in the province. As a result of continuing concerns expressed throughout Canada about the existing reporting entity definition and problems with its interpretation and application, PSAB recently released a discussion paper entitled "Government Reporting Entity Discussion Paper". PSAB's current intention is that the principles outlined in this discussion paper will form the basis for a new reporting entity standard, expected in early 2003. The discussion paper focuses exclusively on control as the determining factor for inclusion. The previous accountability and ownership criteria would be subsumed under this control umbrella.

The discussion paper provides a proposed definition of control for governments and outlines indicators of control in considerable detail. It further proposes that the substance of the organization's relationship with the government be the key determinant for inclusion or exclusion from the reporting entity. The paper proposes three elements to the definition of control. First, regardless of whether control is being exercised or not, the power to control is the key to determining whether entities should be included. Second, for control to exist, the government must be able to direct the financial and operating policies of the organization. Third, the government must expect to benefit from the activities of the organization, or be exposed to loss.

I urge the Ontario government to treat the release of PSAB's discussion paper as an opportunity to make improvements in this important financial reporting area. It is particularly germane to re-examine this issue now as Ontario is moving (as discussed later in this chapter) to reflect its tangible capital assets in its financial statements. I recommend that the Ministry of Finance take immediate steps to initiate a review of its existing reporting entity. The review should encompass all the organizations in Ontario that are currently in the reporting entity as well as those currently outside of it. Special emphasis should be placed on assessing the legislative, regulatory, funding, and accountability relationships the government has in place with each SUCH-sector group or other organizations that receive major transfer payments, as well as any special-purpose agencies created by the Ontario government, such as the Ontario Innovation Trust. The results of the review should be updated as necessary to reflect the recommendations in PSAB's final, issued reporting standard.

MULTI-YEAR FUNDING

In last year's Annual Report, I reported concerns I had regarding the government's accounting and accountability for multi-year funding. I illustrated my concern by detailing a number of problems with the approach taken by the government in accounting for Ontario's health-care expenditures, particularly the practice of charging to one fiscal period transfer payments covering the activities of several years. As I indicated last year, it is essential that the annual operating statements of government properly reflect revenues and expenditures relating to the fiscal period being measured. When this practice is not followed and distortions are significant, users of financial statements cannot evaluate a government's fiscal performance for the year vis-à-vis its budget, assess its revenues earned vis-à-vis its expenditures on government programs, or make useful comparisons of such information between past and future periods or between jurisdictions.

This year I noted no further instances of multi-year funding being inappropriately charged to one fiscal period.

The Canadian Institute of Chartered Accountants has recognized that the current standards for accounting for government transfers allow for considerable latitude and has established a task force to study this issue: the related project is called Government Transfers.

ADOPTING CONSISTENT ACCOUNTING RULES FOR ALL FINANCIAL REPORTS

In my 2001 Annual Report, I stated that the fact that the province's accounting system continued to be maintained and publicly disclosed on two separate bases contributed to the lack of transparency, and I used as an example the inconsistency in Ontario's accounting for health-care expenditures. Specifically, I noted that $1 billion of capital funding for hospitals was reported in the province's financial statements as health-care expenditure for the year ended March 31, 2000, but in Volume 1 of the Public Accounts, the $1 billion was reported as a health-care expenditure for the year ended March 31, 2001. This year I note that corporation tax revenue is shown as $7.5 billion in Volume 1 of the Public Accounts, but it is shown as $6.6 billion in the province's financial statements for the year ended March 31, 2002.

The modified-cash basis of accounting is used for legislative appropriation control and Volume 1, and the modified accrual basis of accounting as prescribed by PSAB is used for purposes of the province's financial statements. I urged the adoption of the accrual accounting approach for all of the government's public financial reports.

This year the government introduced legislation, *Keeping the Promise for Growth and Prosperity Act (2002 Budget), 2002*, to convert Ontario's legislative spending authority and appropriation control to the accrual basis of accounting. Effective April 1, 2003, the government intends to use the accrual basis of accounting in the preparation of all government spending estimates and for the reporting of actual fiscal results against these estimates in Volumes 1 and 3 of the Public Accounts. This step will significantly enhance the public accountability of the government.

FEDERAL TAX ERROR

The Canada Customs and Revenue Agency (CCRA) collects federal and provincial personal income taxes on behalf of all provinces except Quebec. On January 29, 2002, CCRA advised the provinces that it had made an error in processing personal income taxes going back to 1972, which had resulted in significant overpayments to several of the provinces. The error related to capital gains refunds that had been credited by CCRA to mutual fund trusts. A portion of the refunds credited should have been deducted from the personal income tax amounts remitted to certain of the provinces over the years but this was never done.

Although the error had likely been occurring since 1972, supporting data was only available back to 1993. The extent of the federal error relating to the 1993–99 period was estimated to be approximately $3.3 billion, $2.8 billion of which applied to Ontario. In early 2002, CCRA was in the process of finalizing the actual amount of the error and, as part of this work, had asked the Auditor General of Canada to undertake audit procedures to verify the amount of the error once it had been fully determined.

To provide additional assurances to the provinces regarding the work of the federal Auditor General's office, a working group consisting of senior representatives from five provincial legislative audit offices—Ontario, Manitoba, British Columbia, Alberta, and Quebec—was established to review the planned work of the Auditor General, provide input on any issues arising during that work, and assess the impact on the provinces of the work done. My staff liaised with staff in Ontario's Ministry of Finance throughout the course of our work on this issue.

Several meetings between the federal Auditor General's office and representatives from the provincial audit offices were held in March, April, and May 2002. The Auditor General's office was very receptive to suggestions and carried out certain additional audit work at the request of the provinces.

On May 31, 2002, the Auditor General of Canada issued four reports, two of which related to the errors for 1993–99:

- An Auditor's Report wherein the Auditor General concluded that CCRA's Statement of Assessed Mutual Fund Trust Provincial Capital Gains Refunds (the Statement) for the 1997–99 tax years was presented fairly. This Statement showed the amount of the error affecting Ontario for those years as being $2.074 billion.
- An Accountant's Report relating to a similar Statement for the earlier 1993–96 tax years, which showed the amount of the error affecting Ontario for those years as being $738 million.

  An Accountant's Report does not constitute an audit, and while it outlines the specific procedures performed by the Auditor General, it does not provide the same high level of assurance as that provided in the aforementioned Auditor's Report.

On September 4, 2002, the federal Deputy Prime Minister and Minister of Finance announced that the Government of Canada would recover $1.4 billion of the total amounts overpaid to the provinces for the years 1997–99, of which $1.330 billion related to Ontario. The Minister indicated that the recovery would be restricted to a portion of the total amount attributed to 1997–99, the period for which the Auditor General of Canada provided a high level of assurance. The federal government intends to recover the $1.330 billion over ten years, starting in the 2004/05 fiscal year, with no interest penalties.

Accordingly, the province has made provisional adjustments in its 2001/02 financial statements to reflect the amount the federal government intends to recover for 1997–99. However, it is important to note that Ontario disagrees with the position taken by the Canadian government on its recovery. The province believes that the responsibility for the error lies with the federal government. As indicated in the province's Annual Report, Ontario believes the conservative manner in which they have accounted for this error does not preclude them from in future taking action, including legal action, against the CCRA and/or the Canadian government.

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As well, based on prior years' actual federal payments, Ontario's Ministry of Finance developed an estimate of what would be received from the federal government for the 2000 and 2001 tax years relating to trust income tax and recorded the amount relating to the period April 1, 2000 to March 31, 2001 as a receivable and revenue in its 2000/01 financial statements. However, when the federal error relating to mutual fund trusts became known, the Ministry provisionally recognized that $713 million of this receivable would not be collectible and accordingly restated the 2000/01 amounts in its 2001/02 financial statements.

The total impact of the federal tax error was retroactively recorded in the province's 2001/02 financial statements with the 2000/01 balances being restated as outlined in the following table.

Impact of Federal Error on Ontario's 2000/01 Financial Statements

	($ million)
Provisional liabilities increase (for 1997–99)	1,330
Provisional accounts receivable decrease (for 2000–01)	713*
Increase in net debt as at March 31, 2001	**2,043**

* This resulted in a $713-million reduction in the previously reported 2000/01 surplus.

STRANDED DEBT OF THE ELECTRICITY SECTOR

In my 2000 Annual Report, I addressed concerns relating to the recent restructuring of Ontario's electricity sector, particularly its financial impact on the government of Ontario. The most significant of these impacts was the identification and recognition on April 1, 1999 of $19.4 billion of stranded debt to be recovered from ratepayers. This stranded debt arose because of a revaluation of Ontario Hydro's assets to reflect their value in the new competitive environment. These values were significantly lower than the amounts that had previously been recorded in Ontario Hydro's accounts.

As I indicated in 2000, the government established a long-term plan to retire the stranded debt through dedicated revenue streams derived from the electricity sector. Since this debt is to be recovered from electricity ratepayers rather than taxpayers, it is separated from other government liabilities on the province's statement of financial position, and the net annual results under the recovery plan are disclosed separately from the results of other government operations on the province's statement of revenue, expenditure, and net debt.

There are risks for Ontario's taxpayers under the electricity restructuring arrangements. For instance, the recovery plan for the stranded debt is subject to considerable uncertainty because much of the revenue from which the stranded debt will be defeased is dependent on the future energy sales and profits of Ontario Hydro's successor companies. These sales

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There are risks for Ontario's taxpayers under the electricity restructuring arrangements. For instance, the recovery plan for the stranded debt is subject to considerable uncertainty because much of the revenue from which the stranded debt will be defeased is dependent on the future energy sales and profits of Ontario Hydro's successor companies. These sales and profits are difficult to predict because Ontario Hydro's successor entities have just begun operating in a sector that the government opened to competition in May 2002.

In my view, as of March 31, 2002, there is an increasing risk that part or all of the stranded debt will not be recoverable from the ratepayers and will therefore become a liability of the taxpayers. My view is based on the following observations:

- The government's current plan indicates that the stranded debt should be defeased by the year 2012, but the projected defeasance date has been subject to revision. Whereas initially the government indicated that the stranded debt would be defeased as early as 2010, the earliest projected defeasance date has now been delayed by two years.
- The stranded debt has actually risen over the last three years, from $19.4 billion at April 1, 1999 to $20.1 billion at March 31, 2002. A portion of this increase ($226 million) resulted from a change in accounting rules that required a retroactive restatement of Ontario Power Generation Inc.'s results.
- The financial performance of Hydro's successor companies for the fiscal year ended March 31, 2002 was well below expectations. The government expected its two wholly owned Hydro successor companies—Ontario Power Generation Inc. and Hydro One Inc.—to earn $524 million during that fiscal year; instead, the two corporations jointly earned only $179 million, a shortfall of $345 million.
- The $179-million earnings in the 2001/02 fiscal year were insufficient to offset the government's $520-million annual interest charge on debt issued for its $8.9-billion investment in these two companies. It should be noted that, under the recovery plan, only amounts earned by the two successor companies above the $520 million are set aside for stranded debt recovery. Accordingly, none of the $179 million in earnings is available to reduce the stranded debt, and as a result $341 million was absorbed by Ontario's taxpayers.

Frequent and thorough reviews of the stranded debt recovery plan are required to ensure its continued viability. Since the government is responsible for the stranded debt, if its plan to recover the stranded debt through ratepayers fails, the taxpayer will ultimately be responsible for that debt. If the plan can no longer be supported, the government should recognize this debt on its financial statements as recoverable from the taxpayers.

I also urge the government to include in all considerations of privatizations in the electricity sector a careful evaluation of the impacts of each privatization on the ratepayers' ability to defease the stranded debt. For example, any net proceeds from privatization need to be assessed against the estimated future cash flow that will no longer be available to pay off the stranded debt.

ACCOUNTING FOR TANGIBLE CAPITAL ASSETS

Currently, Ontario ministries and government service organizations charge the full cost of capital assets to expenditures in the year of acquisition or construction. This differs from the practice followed in the private sector, where capital assets acquired or constructed are initially recorded on the statement of financial position as assets and amortized and expensed to operations over their estimated useful lives.

In June 1997, PSAB approved a new set of recommendations setting out rules for the recognition, measurement, amortization, and presentation of government capital assets. Among other things, the standard requires that a statement of tangible capital assets be included as part of a government's summary financial statements. The Ministry of Finance has not as yet adopted the recommendations contained in this standard.

In December 1999, the government re-established the Ontario Financial Review Commission (Commission) to review the financial management practices of the government and its major transfer partners. Among the items the Commission examined were capital funding, capital financing, and options for reporting the government's investment in tangible capital assets. At the request of the Minister of Finance, and in conformity with Section 17 of the *Audit Act*, I served as special advisor to the Commission.

The Commission issued its report last year. With respect to tangible capital assets, the Commission concluded that providing more information about the government's inventory of assets owned, the condition of those assets, and its plans for capital renewal, replacement, and disposal is essential. It noted that better reporting would give the public and government a better picture of the resources used to provide public services and should help managers within government make better decisions about how to invest in and maintain tangible capital assets. Its recommendations included the development of the information needed to show the cost and depreciation of existing tangible capital assets and the adoption of the existing PSAB standards for reporting tangible capital assets as soon as possible.

In May 2002, PSAB issued an exposure draft entitled "Reporting Model—Senior Governments", which proposed changes to the June 1997 standards on tangible capital assets. Among other things, the proposed model would require governments, in their statements of financial position, to report on both net debt and the accumulated surplus or deficit based on an expense basis of accounting. Under the expense basis of accounting, the statement of operations would include an annual charge amortizing the cost of tangible capital assets over their useful lives to arrive at a government's reported surplus or deficit for the year rather than recording the full cost of assets acquired during the year as an expenditure.

The government announced in its *2002 Budget* its intention to adopt PSAB's proposed recommendations relating to tangible capital assets beginning in fiscal 2002/03. Under a phased-in approach, the government will first value and record its investments in land, buildings, and the transportation infrastructure; and the remaining tangible capital assets owned by the province will be identified, valued, and incorporated into the statements in subsequent years. I concur with this phased-in approach, given that land, buildings, and the transportation infrastructure are estimated by the government to account for over 90% of its tangible capital assets.

There is little doubt that instituting a system to properly account for Ontario's significant capital investments represents a challenge. I support both PSAB's recommendations and those of the Commission: since 1994, I have stated my belief that summary financial statements reflecting the recommended enhanced financial information will be valuable for both government decision-makers and stakeholders. I am pleased with the steps being taken this year by the government in this area, and look forward to further consultations, to the extent possible while safeguarding my independence, in order that we may help ensure that existence, ownership, auditability, and valuation issues regarding capital assets are appropriately resolved.

OTHER RECOMMENDATIONS FOR IMPROVEMENT

Although the audit of the province's financial statements was not designed to identify all weaknesses in internal controls, nor to provide assurances on financial systems and procedures as such, we noted a number of areas during the audit where we believed improvements could be made. While none of these matters affects the fairness of the financial statements of the province, they are covered, along with accompanying recommendations for improvement, in an annual management letter to the Ministry of Finance.

NEW PSAB INITIATIVES

The Public Sector Accounting Board (PSAB) of the Canadian Institute of Chartered Accountants attempts to foster improved government financial and performance information by continuously improving its existing recommendations and by developing new recommendations to deal with emerging accounting and auditing issues. The "Government Reporting Entity Discussion Paper", the exposure draft entitled "Reporting Model—Senior Governments", and the activities of the task force for the Government Transfers project have already been discussed in preceding sections of this chapter. In addition to these, some of the most significant issues PSAB is dealing with at the present time, from Ontario's perspective, are the following:

- PSAB recently approved a Statement of Principles for "Foreign Currency Translation". This statement proposes that the current practice of deferral and amortization of gains and losses relating to foreign currency and assets and liabilities held in foreign currency be retained to recognize and measure the effects of changes in foreign exchange rates. This practice is currently already followed by the province.
- PSAB recently approved a Statement of Principles for "Financial Statement Discussion and Analysis (FSD&A)". The statement proposes principles and guidance for the presentation of FSD&A as required supplementary information in a government's financial report. This supplementary information would include narrative explanations

and graphical illustrations of key events during the reporting period and explanations and illustrations of variances and trends.

OTHER MATTERS

The Provincial Auditor is required under section 12 of the *Audit Act* to report on any Special Warrants and Treasury Board Orders issued during the year. In addition, under section 91 of the *Legislative Assembly Act*, the Provincial Auditor is required to report on any transfers of money between Items within the same Vote in the Estimates of the Office of the Legislative Assembly.

LEGISLATIVE APPROVAL OF GOVERNMENT EXPENDITURES

The government tables detailed Expenditure Estimates, outlining each ministry's spending proposals on a program-by-program basis, shortly after presenting its Budget. The Standing Committee on Estimates reviews selected ministry Estimates and presents a report to the Legislature with respect to those ministry Estimates that were reviewed. The Estimates of those ministries that are not selected for review are deemed to be passed by the Committee and reported as such to the Legislature. Orders for Concurrence for each of the Estimates reported on by the Committee are debated in the Legislature for a maximum of six hours and then voted on.

Once the Orders for Concurrence are approved, the Legislature provides the government with legal spending authority by approving the *Supply Act*, which stipulates the amounts that can be spent according to the ministry programs as set out in the Estimates. Once the *Supply Act* is approved, the individual program expenditures are considered Voted Appropriations. The *Supply Act, 2001* pertaining to the fiscal year ended March 31, 2002, received Royal Assent on December 12, 2001.

Typically, prior to the passage of the *Supply Act*, the Legislature authorizes payments by means of motions for interim supply. For the 2001/02 fiscal year, the time periods covered by the motions for interim supply and the dates that the motions were agreed to by the Legislature were as follows:

- November 1, 2000 to April 30, 2001—passed September 27, 2000.
- May 1, 2001 to October 31, 2001—passed April 23, 2001.
- November 1, 2001 to April 30, 2002—passed October 22, 2001.

SPECIAL WARRANTS

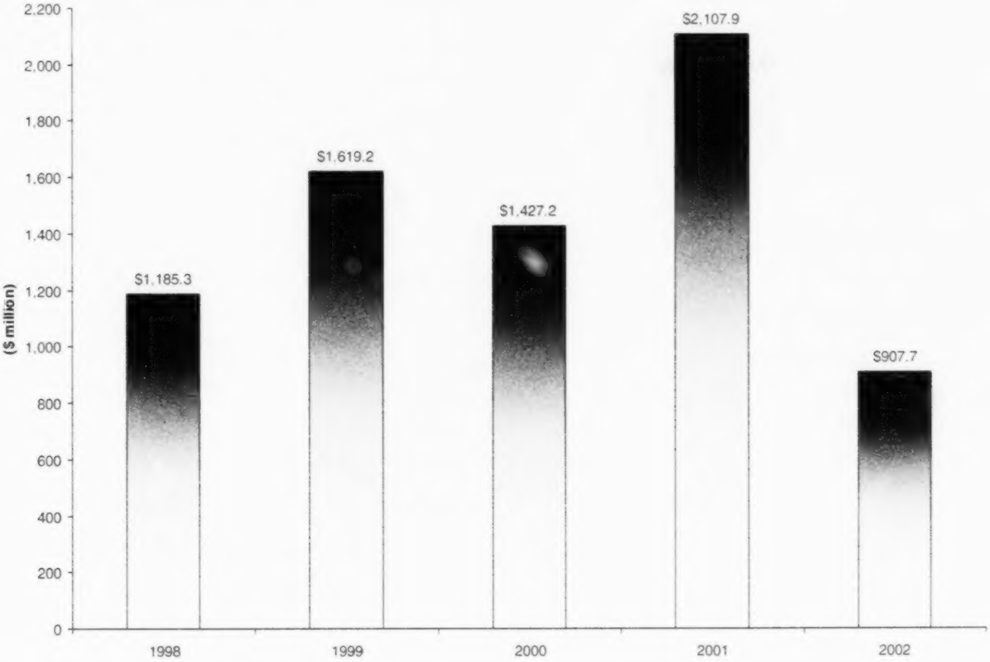
If motions for interim supply cannot be approved because the Legislature is not in session, section 7 of the *Treasury Board Act, 1991* allows the issue of Special Warrants authorizing the expenditure of money for which there is no appropriation by the Legislature. Special Warrants are authorized by Orders in Council approved by the Lieutenant Governor on the recommendation of the government.

As the three motions of interim supply covered the period from April 1, 2001 to March 31, 2002, no Special Warrants were required during the 2001/02 fiscal year.

TREASURY BOARD ORDERS

Section 8 of the *Treasury Board Act, 1991* allows the Treasury Board to make an order authorizing payments to supplement the amount of any Voted Appropriation that is insufficient to carry out the purpose for which it was made, provided the amount of the increase is offset by a corresponding reduction of expenditures from other Voted Appropriations not fully spent in the fiscal year. The order may be made at any time before the first day of May following the end of the fiscal year in which the supplemented appropriation was made.

The following chart is a summary of the total value of Treasury Board Orders issued for the past five fiscal years:



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Treasury Board Orders for the 2001/02 fiscal year summarized by month of issue are as follows:

Month of Issue	Number	Authorized $
May 2001–February 2002	24	231,023,300
March 2002	22	675,194,600
April 2002	1	1,450,000
Total	**47**	**907,667,900**

In accordance with a Standing Order of the Legislative Assembly, the preceding Treasury Board Orders are to be printed in *The Ontario Gazette* in the fall of 2002, together with explanatory information. A detailed listing of 2001/02 Treasury Board Orders, showing the amounts authorized and expended, is included as Exhibit Three of this report.

TRANSFERS AUTHORIZED BY THE BOARD OF INTERNAL ECONOMY

When the Board of Internal Economy authorizes the transfer of money from one Item of the Estimates of the Office of the Assembly to another Item within the same Vote, section 91 of the *Legislative Assembly Act* requires the Provincial Auditor to make special mention of the transfer(s) in the Annual Report.

With respect to the 2001/02 Estimates, the following transfers were made within Vote 201:

			$
From:	Item 5	Administrative Services	178,200
	Item 6	Sergeant at Arms and Precinct Properties	34,500
	Item 8	Caucus Support Services	1,700
To:	Item 1	Office of the Speaker	700
	Item 2	Office of the Clerk	174,100
	Item 3	Legislative Services	28,400
	Item 4	Legislative Library	5,900
	Item 7	Legislative Information Systems	3,600
	Item 13	Restructuring Costs	1,700

In addition, within Vote 202, $60,700 was transferred from Item 2 (Office of the Information and Privacy Commissioner) to Item 1 (Environmental Commissioner).

UNCOLLECTIBLE ACCOUNTS

Under section 5 of the *Financial Administration Act*, the Lieutenant Governor in Council, on the recommendation of the Minister of Finance, may authorize an Order in Council to

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UNCOLLECTIBLE ACCOUNTS

Under section 5 of the *Financial Administration Act,* the Lieutenant Governor in Council, on the recommendation of the Minister of Finance, may authorize an Order in Council to delete from the accounts any amount due to the Crown which is deemed uncollectible. The losses deleted from the accounts during any fiscal year are to be reported in the Public Accounts.

In the 2001/02 fiscal year, receivables of $126.5 million due to the Crown from individuals and non-government organizations were written off (in 2000/01 the comparable amount was $152.9 million). Volume 2 of the *2001/02 Public Accounts of Ontario* provides a listing of these write-offs in total by ministry or Crown agency.

Under the accounting policies followed in the audited financial statements of the province, a provision for doubtful accounts is recorded against the accounts-receivable balances. Accordingly, most of the $126.5 million in write-offs had already been provided for in the audited financial statements. However, the actual deletion from the accounts required Order-in-Council approval.

The major portion of the write-offs related to the following:

- $47.1 million for uncollectible taxes relating to retail sales tax receivables;
- $37.7 million for uncollectible taxes relating to corporation tax receivables;
- $8.9 million for uncollectible taxes relating to employer health tax receivables; and
- $6 million for uncollectible assessments under the Ontario Disability Support Program.

CHAPTER SIX

The Office of the Provincial Auditor

MISSION STATEMENT

Our mission is to report to the Legislative Assembly objective information and recommendations resulting from our independent audits of the government's programs and its Crown agencies and corporations. In doing so, the Office assists the Assembly in holding the government and its administrators accountable for the quality of the administration's stewardship of public funds and for the achievement of value for money in government operations.

INDEPENDENCE

The Provincial Auditor is appointed as an officer of the Legislative Assembly by the Lieutenant Governor in Council on the address of the Assembly. This is done after consultation with the Chair of the Standing Committee on Public Accounts (for more information on the Committee, see Chapter Seven). The Provincial Auditor and staff of the Office are independent of the government and its administration. This independence is a safeguard that enables the Office to fulfill its auditing and reporting responsibilities objectively and fairly. We are entitled to have access to all relevant information and records necessary to the performance of our duties under the *Audit Act*.

The Board of Internal Economy—an all-party legislative committee that is independent of the government's administrative process—reviews and approves our budget, which is subsequently laid before the Legislative Assembly. As required by the *Audit Act*, the Office's expenditures relating to the 2001/02 fiscal year have been audited by a firm of chartered accountants appointed by the Board and are presented at the end of this chapter. The audited statement of expenditure is submitted annually to the Board and subsequently tabled in the Legislative Assembly.

AUDIT RESPONSIBILITIES

We audit the financial statements of the province and the accounts of many agencies of the Crown, and we audit the administration of government programs and activities, as carried

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AUDIT RESPONSIBILITIES

We audit the financial statements of the province and the accounts of many agencies of the Crown, and we audit the administration of government programs and activities, as carried out by ministries and agencies of the Crown under government policies and legislation. Our responsibilities are set out in the *Audit Act* (see Exhibit Four).

The Office reports on its audits in an Annual Report to the Legislative Assembly. In addition, the Office may make a special report to the Assembly at any time on any matter that in the opinion of the Provincial Auditor should not be deferred until the Annual Report. We also assist and advise the Standing Committee on Public Accounts in its review of the Annual Report of the Provincial Auditor and of the Public Accounts of the province.

It should be noted that our audit activities include the examination of the application of the government's administrative policies and the actual administration of the government's policy decisions as carried out by ministry or agency management. Out of respect for the principle of Cabinet privilege, the Office does not seek access to the deliberations of Cabinet. However, the Office can access all other information contained in Cabinet submissions that we deem necessary to fulfill our auditing and reporting responsibilities under the *Audit Act*.

The government is held accountable for policy matters by the Legislative Assembly, which continually monitors and challenges government policies and programs through questions during legislative sessions and through reviews of legislation and expenditure estimates.

ACCOUNTS OF THE PROVINCE AND VALUE FOR MONEY

The Provincial Auditor, under subsection 9(1) of the *Audit Act*, is required to audit the accounts and records of the receipt and disbursement of public money forming part of the Consolidated Revenue Fund whether held in trust or otherwise. To this end, the Office carries out an annual attest audit to enable the Provincial Auditor to express an opinion on the province's financial statements. As well, the Office carries out cyclical value-for-money audits in accordance with subsection 12(2) of the *Audit Act*.

AGENCIES OF THE CROWN AND CROWN-CONTROLLED CORPORATIONS

The Provincial Auditor, under subsection 9(2) of the *Audit Act*, is required to audit those agencies of the Crown that are not audited by another auditor. Exhibit One, Part (I), lists the agencies that were audited during the 2001/02 audit year. Public accounting firms are currently contracted by the Office to audit the financial statements of several of these agencies on its behalf.

Exhibit One, Part (II) and Exhibit Two list the agencies of the Crown and Crown-controlled corporations, respectively, that were audited by public accounting firms during the 2001/02 audit year. Subsection 9(2) of the *Audit Act* requires public accounting firms that are appointed auditors of certain agencies of the Crown to perform their audits under the direction of, and to report to, the Provincial Auditor. Under subsection 9(3) of the Act, public accounting firms auditing Crown-controlled corporations are required to deliver to the Provincial Auditor a copy of the audited financial statements of the corporation and a copy of their report of their findings and recommendations to management (management letter).

ADDITIONAL RESPONSIBILITIES

Under section 16 of the *Audit Act*, the Provincial Auditor may, by resolution of the Standing Committee on Public Accounts, be required to examine and report on any matter respecting the Public Accounts.

Section 17 of the Act requires the Provincial Auditor to undertake special assignments requested by the Assembly, the Standing Committee on Public Accounts (by resolution of the Committee), or by a minister of the Crown. However, these special assignments are not to take precedence over the Provincial Auditor's other duties. The Provincial Auditor can decline an assignment referred by a minister if, in the opinion of the Provincial Auditor, it conflicts with other duties.

During the period of audit activity covered by this report (October 2001 to September 2002), the Provincial Auditor was involved in the following special assignments:

- On October 12, 2000, the Standing Committee on Public Accounts passed the following motion:

  > The Public Accounts Committee directs that at such time as the OEB [Ontario Energy Board] and the Canadian Nuclear Safety Commission have completed their review of the leasing deal of Bruce Nuclear A and B and the agreement is completed, the Provincial Auditor examine all details of the leasing agreement between Ontario Power Generation and Bruce Partnership for the Bruce A and B nuclear facilities, to determine if the deal offers value for money for Ontario taxpayers, and to report to the Public Accounts Committee with his findings and recommendations as soon as possible.

- On February 28, 2001, the Standing Committee on Public Accounts passed the following motion:

  > That the Provincial Auditor, under section 17 of the *Audit Act*, be asked to conduct a value-for-money audit of the policy decision by Cancer Care Ontario to provide after-hours radiation therapy through a private clinic rather than in-house and report back to the Public Accounts Committee as soon as possible.

The reports on the above special assignments were submitted to the Committee on June 6, 2002 and December 13, 2001, respectively.

In addition, on June 18, 2002, the Provincial Auditor accepted a special assignment from the Minister of Health and Long-Term Care to verify Ontario's indicators of health. The assignment followed from the 2000 First Ministers' Meeting that issued a Communiqué on Health that directed health ministers to provide comprehensive and regular public reporting on their health programs and services and on their respective health system's performance. They also were to collaborate on the development of a comprehensive framework using comparable indicators. As part of this process, each jurisdiction was to determine appropriate third-party verification for itself. Our Office agreed to perform specified procedures to provide assurance to the public regarding the reliability of Ontario's reported indicators. The results of our work were reported to the Minister of Health and Long-Term Care.

AUDIT ACTIVITIES

TYPES OF AUDITS

Value-for-money, attest, and compliance audits are the three main types of audits carried out by the Office. The Office generally conducts compliance audit work as a component of its value-for-money and attest audits. In addition, inspection audits of selected grant-recipient organizations may be conducted under section 13 of the *Audit Act*. The following are brief descriptions of each of these audit types.

Value-for-Money Audits

Subsection 12(2) of the *Audit Act* requires the Office to report on any cases observed where money was spent without due regard for economy and efficiency, or where appropriate procedures were not in place to measure and report on the effectiveness of programs. This value-for-money mandate is exercised through the auditing of various ministry and Crown-agency programs and activities each year. We have summarized in Chapter Three the conclusions, observations, and recommendations arising from the value-for-money work we performed between October 2001 and September 2002.

It is not part of the Office's mandate to measure, evaluate, or report on the effectiveness of programs or to develop performance measures or standards. These functions are the responsibility of ministry and/or agency management. The Office is responsible for reporting on whether or not ministry or agency management has carried out these functions satisfactorily. Our value-for-money work deals with the administration of programs by management, including major information systems.

We plan, perform, and report our value-for-money work in accordance with the professional standards for assurance engagements, encompassing value for money and compliance, established by the Canadian Institute of Chartered Accountants. These standards require that we employ rigorous processes to maintain the quality, integrity, and value of our work for our client, the Legislative Assembly. They also require that we clearly explain the nature and extent of the assurance provided as a result of our work. Some of these processes and the degree of assurance they enable us to provide are described below.

SELECTION OF PROGRAMS AND ACTIVITIES FOR AUDIT

Major ministry and agency programs and activities are audited at approximately five-year intervals. Various factors are considered in selecting programs and activities for audit each year. These factors include: the results of previous audits; the total revenues or expenditures at risk; the impact of the program or activity on the public; the inherent risk due to the complexity and diversity of operations; the significance of possible issues that may be identified by an audit; and the costs of performing the audit in relation to the perceived benefits. Possible issues are identified primarily through a preliminary survey of the program or agency.

We also consider the work completed or planned by ministry and agency internal auditors. The relevance, timeliness, and breadth of scope of the work done by internal auditors can have a major impact on the timing, frequency, and extent of our audits. By having access to internal audit work plans, working papers, and reports and by relying, to the extent possible, on internal audit activities, the Office is able to avoid duplication of effort.

OBJECTIVES AND ASSURANCE LEVELS

The objective of our value-for-money work is to meet the requirements of subsection 12(2) of the *Audit Act*, which is to identify and report significant value-for-money issues. We also include in our Annual Report recommendations for improving controls, obtaining better value for money, and achieving legislated objectives. Management responses to each of these recommendations are reproduced in the Annual Report.

The specific objective(s) for each audit or review conducted are clearly stated in the Objective(s) and Scope section of each audit report—that is, each value-for-money section of Chapter Three. Our work is designed to allow us to conclude on our stated objective(s).

In almost all cases, our work is planned and performed to provide an audit level of assurance. An audit level of assurance is obtained by: interviewing management and analyzing the information they provide; examining and testing systems, procedures, and transactions; confirming facts with independent sources; and, where necessary, obtaining expert assistance and advice in highly technical areas.

An audit level of assurance refers to the highest reasonable level of assurance the Office can provide concerning the subject matter. Absolute assurance that all significant matters have been identified is not attainable for various reasons, including: the use of testing; the inherent limitations of control; the fact that much of the evidence available is persuasive rather than conclusive in nature; and the need to exercise professional judgment.

Infrequently, for reasons such as the nature of the program or activity, limitations in the *Audit Act*, or the prohibitive cost of providing a high level of assurance, the Office will perform a review rather than an audit. A review provides a moderate level of assurance because it consists primarily of inquiries and discussions with management; analyses of information they provide; and only limited examination and testing of systems, procedures, and transactions. For example, our work reported in Chapter Four of this report—Follow-up of Recommendations in the *Special Report on Accountability and Value for Money* (2000)—falls into this review category.

CRITERIA

In accordance with professional standards for assurance engagements, work is planned and performed to provide a conclusion on the objective(s) set for the work. A conclusion is reached and observations and recommendations made by evaluating the administration of a program or activity against suitable criteria. Suitable criteria are identified at the planning stage of our audit or review by performing extensive research of sources, such as: recognized bodies of experts; applicable laws, regulations, and other authorities; other bodies or jurisdictions delivering similar programs and services; management's own policies and procedures; and applicable criteria successfully applied in other audits or reviews.

To further ensure their suitability, the criteria being applied are fully discussed with and agreed to by senior management responsible for the program or activity at the planning stage of the audit or review.

COMMUNICATION WITH SENIOR MINISTRY OR AGENCY MANAGEMENT

To help ensure the factual accuracy of our observations and conclusions, staff from our Office maintain ongoing communication with senior management throughout the audit or review. Before beginning the work, our staff meet with them to discuss the objectives and criteria and the focus of our work in general terms. During the audit or review, our staff meet with management to review progress and ensure open lines of communication. At the conclusion of on-site work, management is briefed on the preliminary results of the work. A draft report is then prepared and discussed with them. Management provides written responses to our recommendations and these are discussed and incorporated into the final draft report. The Provincial Auditor discusses and finalizes the draft report, on which the Annual Report will be based, with the deputy minister or agency head well in advance of the publication of the Annual Report.

Attest Audits

Attest (financial) audits are designed to permit the expression of the auditor's opinion on a set of financial statements in accordance with generally accepted auditing standards. The opinion states whether the operations and financial position of the entity have been fairly presented in compliance with appropriate accounting policies. The Office conducts attest audits of the financial statements of the province and of numerous Crown agencies on an annual basis.

Compliance Audits

Subsection 12(2) of the *Audit Act* also requires the Office to report observed instances where:

- accounts were not properly kept or public money was not fully accounted for;
- essential records were not maintained or the rules and procedures applied were not sufficient to safeguard and control public property or to effectively check the assessment,

collection, and proper allocation of revenue or to ensure that expenditures were made only as authorized; or

- money was expended other than for the purposes for which it was appropriated.

Accordingly, as part of our value-for-money work, we:

- identify provisions in legislation and authorities that govern the programs or agencies being examined or that the management of those programs or agencies is responsible for administering; and
- perform such tests and procedures as we deem necessary to obtain reasonable assurance that management has complied with legislation and authorities in all significant respects.

Inspection Audits of Grant-recipient Organizations

Although grants to organizations such as hospitals, universities, community colleges, school boards, and thousands of smaller organizations amount to approximately 50% of total government expenditures, they are subject to only limited-scope inspection audits. Inspection audits are defined in the *Audit Act* as an examination of accounting records. Although value-for-money observations may arise as a by-product of inspection audits, the audits are not value-for-money oriented because only accounting records can be examined in inspection audits.

The Office may, where circumstances warrant the extension of a ministry or agency audit, conduct inspection audits of grant recipients. In the past, the Office has carried out inspection audits of major recipients of grants, specifically community colleges, universities, hospitals, and school boards. However, in recent years, the Office has deferred major inspection-audit activity pending consideration of a proposal to amend the *Audit Act* to permit the Office to access all records and information necessary to perform full-scope audits, including value-for-money, of grant recipients.

On April 19, 2001, the government announced in the Speech from the Throne, under the heading of "Holding the Broad Public Sector Accountable to Taxpayers," that it would be introducing sweeping reforms to ensure that all public-sector institutions are accountable to the citizens of Ontario. Included in the planned reforms announced in the Throne Speech was a commitment to make amendments to the *Audit Act* that would permit the Provincial Auditor to assess the extent to which institutions funded by Ontario taxpayers use that money prudently, effectively, and as intended. The government's intention in this regard was also referred to in Budget Paper F of the *2001 Ontario Budget*. Further details and background on the subject of amendments to the *Audit Act* are provided in Chapter Two, in the section entitled "Legislative Proposals to Improve Public-Sector Accountability."

Payments are also made to individuals under a variety of programs, such as the Ontario Health Insurance Plan or the Ontario Disability Support program. Such individual recipients of government funds are not, and should not be, subject to direct audit by the Provincial Auditor. For these kinds of programs, our audits focus on the ministries' procedures to ensure that only eligible recipients are being paid the correct amount.

REPORTING ACTIVITIES

VALUE-FOR-MONEY AUDITS

As each audit or review is completed, the Office prepares a preliminary draft report for discussion and factual clearance. The preliminary draft report is discussed with senior ministry or agency officials and revised, as necessary, to reflect the results of the discussion. The Provincial Auditor discusses and finalizes the draft report with the deputy minister or agency head (chair) well in advance of the publication of the Annual Report. Following clearance of the preliminary draft report and the ministry or agency response, a final draft report is prepared and issued to the deputy minister or agency head and, where deemed necessary, to the minister. These final-draft audit reports form the basis of our Annual Report to the Legislative Assembly.

AGENCY ATTEST AUDITS

With respect to reporting on attest audits of agencies, agency legislation normally stipulates that the Provincial Auditor's reporting responsibilities are to the agency's board and the minister(s) responsible. Also, we provide copies of the audit opinions and of the related agency financial statements to the deputy minister of the associated ministry, as well as to the Secretary of the Management Board of Cabinet.

In instances where matters that require improvements by management have been noted during the course of an agency attest audit, a draft management letter is prepared, discussed with senior management, and revised as necessary to reflect the results of the discussion. Following clearance of the draft management letter and the response of the agency's senior management, a final management letter is prepared and, if deemed necessary, issued to the agency head. Depending on the significance of the content of the management letter, a copy of it may also be forwarded to the minister and deputy minister of the associated ministry and to the Secretary of the Management Board of Cabinet. Matters of significance contained in the management letter may also be included in the Provincial Auditor's Annual Report to the Legislative Assembly.

CONFIDENTIALITY OF WORKING PAPERS

In the course of our reporting activities, we prepare draft audit reports and management letters that are considered to be an integral part of our audit working papers. It should be noted that these working papers, according to section 19 of the *Audit Act*, are not required to be laid before the Assembly or any of its committees.

SPECIAL ASSIGNMENTS

Under sections 16 and 17 of the *Audit Act*, the Office has additional reporting responsibilities relating to special assignments for the Legislative Assembly, the Standing Committee on Public Accounts, or a minister of the Crown. At the conclusion of such work, the Provincial Auditor normally reports to the initiating authority of the assignment.

ANNUAL REPORT

The reporting requirements for the Annual Report, as specified in subsection 12(2) of the *Audit Act*, are organized in the following way:

Chapter One of the Annual Report provides an overview of the Provincial Auditor's findings for this year's value-for-money audit activities as well as summaries of the value-for-money audits and reviews that were conducted.

Chapter Two contains observations on the subject of improving public-sector accountability.

Chapter Three contains the reports resulting from our value-for-money audits of ministries and agencies conducted during the year.

Chapter Four contains the results of our follow-up on the action taken by each ministry and agency on the recommendations we made to them two years ago. We conduct this follow-up to encourage timely attention by each ministry and agency to our observations and recommendations. Accordingly, a detailed account of the current status of recommendations made in the *Special Report on Accountability and Value for Money* (2000) is provided in this chapter.

Chapter Five is devoted to the Provincial Auditor's comments on the audit of the Public Accounts of the province. The reporting requirements under subsections 12(2)(d) and (e) of the *Audit Act* are also met in this chapter.

In Chapter Six, we report on the activities of the Office of the Provincial Auditor and reproduce the Office's externally audited statement of expenditure for the year ended March 31, 2002.

Chapter Seven provides information on the composition and activities of the Standing Committee on Public Accounts.

OFFICE ORGANIZATION AND PERSONNEL

The Office is organized into portfolio teams—a framework that attempts to align somewhat related audit entities and to foster expertise in the various areas of audit activity. The portfolios, which are loosely based on the government's own ministry organization, are each headed by a Director who oversees and is responsible for the ministry and agency audits within the assigned portfolio. Assisting the portfolio Directors and rounding out the teams are a number of audit Managers and various other audit staff.

The Provincial Auditor, the Assistant Provincial Auditor, and the portfolio Directors make up the Office's Executive Steering Committee (ESC). The executive management of the Office as at September 30, 2002 is outlined in the following table.

Executive Management of the Office of the Provincial Auditor, 2002

Erik Peters	Provincial Auditor
Jim McCarter	Assistant Provincial Auditor
Director	**Portfolio**
Paul Amodeo	Public Accounts; Finance; Information Technology; and Accounting Research
Walter Bordne	Community, Family and Children's Services; and Revenue
Andrew Cheung	Justice and Regulatory
Gerard Fitzmaurice	Economic Development
John McDowell	Crown Agencies, Corporations, Boards, and Commissions; and Transportation
Nick Mishchenko	Health and Long-Term Care; and Management Board Secretariat
Gary Peall	Education; Training, Colleges and Universities; Culture; Municipal Affairs and Housing; and Professional Practices

Note: Annemarie Wiebe, the Manager of Human Resources, regularly attends meetings of the ESC to provide advice on matters related to human resources.

The audit managers, together with the members of the ESC, constitute the Office's Resource Planning and Allocation Committee.

CODE OF PROFESSIONAL CONDUCT

The Office has a Code of Professional Conduct to encourage staff to maintain high professional standards and ensure a professional work environment. It is intended to be a general statement of philosophy, principles, and rules regarding conduct for employees of the Office, who have a duty to conduct themselves in a professional manner and to strive to achieve the highest standards of behaviour, competence, and integrity in their work. The Code provides the reasoning for these expectations and further describes the Office's responsibilities to the Legislative Assembly, the public, and our audit entities. The Code also provides guidance on disclosure requirements and the steps to be taken to avoid conflict-of-interest situations.

CANADIAN COUNCIL OF LEGISLATIVE AUDITORS

The 30th annual meeting of the Canadian Council of Legislative Auditors (CCOLA) was held in St. John's, Newfoundland from August 25 to 27, 2002. This annual gathering, bringing together legislative auditors from the federal government and the provinces, provides a useful forum for sharing ideas and exchanging information important to the work of the legislative auditing community.

The Provincial Auditor and the Assistant Provincial Auditor attended this year's meeting, which covered such topics as:

- Accountabilities of Legislative Auditors
- Performance Reporting
- Performance Indicators for Health Care

ACKNOWLEDGEMENT

AUDITEES AND STAFF

The Provincial Auditor expresses sincere appreciation to the officials of ministries, agencies, and other entities for their co-operation in providing his staff with all the information and explanations required during the performance of the Office's audit work.

The Provincial Auditor extends a special appreciation to the staff of the Office for their dedication, competence, and the professional manner in which they have carried out their duties.

OFFICE EXPENDITURE

The following is the 2002 audited Statement of Expenditure for the Office.

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M121

IMPORTANT NOTE CONCERNING THE FOLLOWING PAGES

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Office of the Provincial Auditor of Ontario
Statement of Expenditure
Year Ended March 31, 2002

	2002		2001	
	Actual ($ 000)	Estimates ($ 000)	Actual ($ 000)	Estimates ($ 000)
Salaries and wages	4,721	5,822	4,559	5,259
Employee benefits (note 3)	716	878	876	1,098
Transportation and communication	212	170	187	174
Services	1,749	1,639	1,641	1,522
Supplies and equipment	315	124	197	110
Transfer payment:				
CCAF–FCVI Inc.	50	50	50	50
	7,763	**8,683**	**7,510**	**8,213**
The *Audit Act* (statutory) (note 4)	306	294	276	155
	8,069	**8,977**	**7,786**	**8,368**

Notes to Statement of Expenditure:

1. **Accounting Policy**

   The statement of expenditure has been prepared using the prescribed Ministry of Finance modified cash basis of accounting, which allows for an additional 30 days to pay for goods and services received during the fiscal year just ended.

2. **Estimates**

   The "Estimates" shown on the statement of expenditure reflect the approved Expenditure Estimates of the Province of Ontario for the respective years.

3. **Employee Benefits**

   The Office provides pension benefits for eligible employees through participation in the Public Service Pension Fund (PSPF), a multiemployer pension plan established by the Province of Ontario. The plan is accounted for as a multiemployer defined contribution pension plan. As such, the Office's cash contribution to the PSPF for the year of $190,869 (2001 – $259,891) reflects the Office's pension expenditures and is included in employee benefits.

   The cost of post-retirement non-pension benefits is paid by Management Board Secretariat and therefore is not included in this statement.

4. **Statutory Appropriations**

   Under section 5 of the *Audit Act*, the Provincial Auditor's remuneration for the fiscal year is considered a statutory item. As well, under section 23 of the Act, specialist assistance of $97,370 incurred in connection with the Office's examination of the Bruce Nuclear leasing agreement as requested by the Standing Committee on Public Accounts is considered a statutory item.

Office of the Provincial Auditor of Ontario
Statement of Expenditure
Year Ended March 31, 2002

	2002		2001	
	Actual ($ 000)	**Estimates ($ 000)**	**Actual ($ 000)**	**Estimates ($ 000)**
Salaries and wages	4,721	5,822	4,559	5,259
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The actual 2001 expenditure includes approximately $88,000 for retroactive remuneration for the years from 1996 to 2000 as approved by the Board of Internal Economy in accordance with section 5 of the *Audit Act.*

5. Public Sector Salary Disclosure Act, 1996

Section 3(5) of this Act requires disclosure of Ontario public-sector employees paid an annual salary in excess of $100,000 in calendar year 2001. For the Office, this disclosure is as follows:

		Salary Paid $	Taxable Benefits $
Peters, Erik	Provincial Auditor	208,841	20,209
McCarter, James	Assistant Provincial Auditor	140,794	330
Bordne, Walter	Director	110,957	255
Cheung, Andrew	Director	110,957	255
Fitzmaurice, Gerard	Director	110,957	255
McDowell, John	Director	110,957	255
Mishchenko, Nicholas	Director	110,957	255
Peall, Gary	Director	110,957	255

AUDITORS' REPORT TO THE BOARD OF INTERNAL ECONOMY OF THE LEGISLATIVE ASSEMBLY OF ONTARIO

We have audited the statement of expenditure of the Office of the Provincial Auditor for the year ended March 31, 2002. This statement is the responsibility of the management of the Office of the Provincial Auditor. Our responsibility is to express an opinion on this statement based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the statement. An audit also includes assessing the accounting principles used as well as evaluating the overall statement presentation.

In our opinion, this statement presents fairly, in all material respects, the expenditures of the Office of the Provincial Auditor for the year ended March 31, 2002 in accordance with the accounting policy referred to in note 1 to the statement.

Toronto, Canada
July 10, 2002

ALLEN & MILES LLP
CHARTERED ACCOUNTANTS

CHAPTER SEVEN

The Standing Committee on Public Accounts

APPOINTMENT AND COMPOSITION OF THE COMMITTEE

The Standing Orders of the Legislature provide for the appointment of an all-party Standing Committee on Public Accounts. The Committee is appointed for the duration of the Parliament (that is, the period from the opening of the first session immediately following a general election to the end of a government's term and the calling of another election).

The membership of the Committee reflects proportionately the representation of parties in the Legislature. All members are entitled to vote on motions with the exception of the Chair, whose vote is restricted to the breaking of a tie.

In accordance with the Standing Orders, a Standing Committee on Public Accounts was appointed on November 1, 1999, soon after the commencement of the First Session of the Thirty-seventh Parliament. The membership of the Committee at September 30, 2002 was as follows:

John Gerretsen, Chair, Liberal
Bruce Crozier, Vice-chair, Liberal
Steve Gilchrist, Progressive Conservative
Raminder Gill, Progressive Conservative
John Hastings, Progressive Conservative
Shelley Martel, New Democrat
Al McDonald, Progressive Conservative
Richard Patten, Liberal

ROLE OF THE COMMITTEE

The Committee examines, assesses, and reports to the Legislature on a number of issues, including the economy and efficiency of government operations; the effectiveness of programs in achieving their objectives; controls over assets, expenditures, and the assessment and collection of revenues; and the reliability and appropriateness of information in the Public Accounts.

In fulfilling this role, pursuant to its terms of reference in the Standing Orders of the Assembly, the Committee reviews the Provincial Auditor's Annual Report and the Public Accounts and reports to the Legislature its observations, opinions, and recommendations. Under the Standing Orders, the documents are deemed to have been permanently referred to the Committee as they become available.

PROVINCIAL AUDITOR'S ROLE WITH THE COMMITTEE

In accordance with section 16 of the *Audit Act*, the Provincial Auditor and senior staff attend committee meetings at which the Committee reviews the Provincial Auditor's Annual Report and the Public Accounts and assist the Committee in planning its agenda.

COMMITTEE PROCEDURES AND OPERATIONS

GENERAL

The Committee meets on Thursday mornings when the Legislature is sitting. At times, the Committee also meets during the summer and winter when the Legislature is not sitting. All meetings are open to the public with the exception of those dealing with the setting of the Committee's agenda and the preparation of committee reports. All public Committee proceedings are recorded in Hansard (the official verbatim report of the debates in the House, speeches, other proceedings in the Legislature, and all open-session sittings of standing and select committees).

The Committee selects matters from the Provincial Auditor's Annual Report and the Public Accounts for hearings. The Committee then requests senior ministry and agency officials to appear and respond to questions at these hearings. Since the Committee is concerned with administrative rather than policy matters, ministers rarely attend.

Once hearings are completed, the Committee then reports its comments and recommendations to the Legislature. Committee procedures include the following:

- in-depth briefings and preparation;
- when practical, the inclusion of ministry responses in committee reports; and
- follow-up of committee recommendations.

The Committee also follows up in writing with those ministries and Crown agencies not selected for detailed review by the Committee regarding their plans and timetables for addressing the concerns raised in the Provincial Auditor's reports. This process enables each auditee to update the Committee on activities undertaken since the completion of the audit, such as any initiatives taken to address the Provincial Auditor's recommendations.

MEETINGS HELD

From October 2001 to September 2002, the Committee met regularly on Thursday mornings when the Legislature was sitting and also met during the winter recess to consider the reports of the Provincial Auditor. The Committee's work during this period relating to the work of this Office included:

- reviewing the following items from the Provincial Auditor's *2001 Annual Report* and *2000 Special Report on Accountability and Value for Money:*

  2001 Annual Report

  - Ministry of Agriculture, Food and Rural Affairs—Food Industry Program;
  - Ministries of the Attorney General, Correctional Services, and Solicitor General (now the ministries of the Attorney General and of Public Safety and Security)—Integrated Justice Project;
  - Ministry of Community and Social Services (now the Ministry of Community, Family and Children's Services)—Violence Against Women Program;
  - Ministry of Finance—Community Reinvestment Fund;
  - Ontario Innovation Trust;
  - Ministry of Transportation—Road User Safety Program;
  - the following follow-ups of recommendations contained in the *1999 Annual Report:*
    - Ministry of Economic Development and Trade (now the Ministry of Enterprise, Opportunity, and Innovation)—Financial Control Review;
    - Ministry of Finance—Provincial Personal Income Tax Revenue and Related Credits and Reductions; and
    - Ministry of Health and Long-Term Care—Ontario Substance Abuse Bureau;

  2000 Special Report

  - Ministry of Consumer and Commercial Relations (now the Ministry of Consumer and Business Services)—Project to Automate the Land Registration System (POLARIS);
  - Ministry of the Environment—Operations Division;
- reviewing the Provincial Auditor's report, *Special Audit of Cancer Care Ontario;*
- reviewing the Provincial Auditor's report, *Special Audit of the Bruce Nuclear Transaction;*

- discussing the Office's proposed amendments to the *Audit Act*; and
- finalizing reports to the Legislature.

During the period from October 2001 to September 2002, the Committee held hearings on the following Bills referred by the House:

- *Ethics and Transparency in Public Matters Act, 2002* (Bill 95); and
- *Public Sector Employee's Severance Pay Disclosure Act, 2002* (Bill 53).

The House has also referred the *Audit Amendment Act, 2002* (Bill 5) to the Committee for detailed review. It is expected that the Committee will hold hearings on Bill 5 in the fall 2002 session.

REQUESTS FOR SPECIAL AUDITS

The Standing Committee on Public Accounts passed the following two motions on October 12, 2000 and February 28, 2001, respectively:

> 1. The Public Accounts Committee directs that at such time as the OEB [Ontario Energy Board] and the Canadian Nuclear Safety Commission have completed their review of the leasing deal of Bruce Nuclear A and B and the agreement is completed, the Provincial Auditor examine all details of the leasing agreement between Ontario Power Generation (OPG) and Bruce Partnership for the Bruce A and B nuclear facilities, to determine if the deal offers value for money for Ontario taxpayers, and to report back to the Public Accounts Committee with his findings and recommendations as soon as possible.
> 2. That the Provincial Auditor, under section 17 of the *Audit Act*, be asked to conduct a value-for-money audit of the policy decision by Cancer Care Ontario to provide after-hours radiation therapy through a private clinic rather than in-house and report back to the Public Accounts Committee as soon as possible.

The reports on the above special assignments were submitted to the Committee on June 6, 2002 and December 13, 2001, respectively, at which times the reports were discussed.

REPORTS OF THE COMMITTEE

GENERAL

The Committee issues its reports to the Legislature. These reports contain a précis of the information reviewed by the Committee during its meetings, together with comments and recommendations.

All committee reports are available through the Clerk of the Committee, thus enabling public access to full details of committee deliberations.

After the Committee tables its report in the Legislative Assembly, it requests that ministries or agencies respond within 120 days or within time frames stipulated by the Committee in its individual recommendations.

During the period from October 2001 to September 2002, the Committee submitted the following reports to the Legislative Assembly:

- *Operations Division, Ministry of the Environment;* and
- *POLARIS* (Ministry of Consumer and Business Services).

FOLLOW-UP OF RECOMMENDATIONS MADE BY THE COMMITTEE

The Clerk of the Committee is responsible for following up on the actions taken on the Committee's recommendations by ministries or agencies. The Office of the Provincial Auditor confers with the Clerk to ascertain the status of the recommendations and, if considered necessary, brings any significant matters to the attention of the Legislature through the Provincial Auditor's Annual Report.

Detailed information on the Committee's recommendation respecting amendments to the *Audit Act* and other related matters is contained in Chapter Two of this report.

OTHER COMMITTEE ACTIVITIES

Canadian Council of Public Accounts Committees (CCPAC)

CCPAC consists of delegates from federal, provincial, and territorial public accounts committees from across Canada. CCPAC meets at the same time and place as the Canadian Council of Legislative Auditors (CCOLA) to discuss issues of current interest. The twenty-third annual meeting of CCPAC was held in St. John's, Newfoundland from August 25 to 27, 2002. The annual CCPAC and CCOLA meetings also permit the delegations to participate in a joint session to discuss subjects of mutual interest to politicians and legislative auditors. The 2002 joint session with CCOLA was on the subject of "Measuring Progress: The State of Federal Government Finances."

Exhibits

EXHIBIT ONE

Agencies of the Crown

(I) Agencies whose accounts are audited by the Provincial Auditor

AgriCorp
Algonquin Forestry Authority
Cancer Care Ontario
Centennial Centre of Science and Technology
Chief Election Officer, *Election Finances Act*
Election Fees and Expenses, *Election Act*
Financial Services Commission of Ontario
Grain Financial Protection Board, Funds for Producers of Grain Corn, Soybeans and Canola
Investor Education Fund, Ontario Securities Commission
Legal Aid Ontario
Liquor Control Board of Ontario
Livestock Financial Protection Board, Fund for Livestock Producers
Northern Ontario Heritage Fund Corporation
Office of the Assembly
Office of the Environmental Commissioner
Office of the Information and Privacy Commissioner
Office of the Children's Lawyer
Office of the Ombudsman
Ontario Clean Water Agency (December 31)
Ontario Development Corporation
Ontario Educational Communications Authority
Ontario Electricity Financial Corporation
Ontario Exports Inc.
Ontario Financing Authority
Ontario Food Terminal Board
Ontario Heritage Foundation
Ontario Housing Corporation (December 31)
Ontario Immigrant Investor Corporation
Ontario Media Development Corporation
Ontario Northland Transportation Commission (December 31)
Ontario Place Corporation
Ontario Racing Commission
Ontario Realty Corporation
Ontario Securities Commission
Ontario SuperBuild Corporation
Ontario Tourism Marketing Partnership Corporation
Province of Ontario Council for the Arts
Provincial Judges Pension Fund, Provincial Judges Pension Board
Public Guardian and Trustee for the Province of Ontario
Toronto Area Transit Operating Authority
TVOntario Foundation

(II) Agencies whose accounts are audited by another auditor under the direction of the Provincial Auditor
Board of Community Mental Health Clinic, Guelph
Niagara Parks Commission (October 31)
Ontario Mental Health Foundation
St. Lawrence Parks Commission
Workplace Safety and Insurance Board (December 31)

Notes:

1. Dates in parentheses indicate fiscal periods ending on a date other than March 31.
2. Changes during the 2001/02 fiscal year:

   Additions:
   - Ontario SuperBuild Corporation

   Inactive:
   - North Pickering Development Corporation

Exhibit One

EXHIBIT TWO

Crown-controlled Corporations

Corporations whose accounts are audited by an auditor other than the Provincial Auditor, with full access by the Provincial Auditor to audit reports, working papers, and other related documents

Access Centre for Community Care in Lanark, Leeds and Grenville
Access Centre for Hastings and Prince Edward Counties
Algoma Community Care Access Centre
Art Gallery of Ontario Crown Foundation
Baycrest Hospital Crown Foundation
Big Thunder Sports Park Ltd.
Board of Funeral Services
Brant Community Care Access Centre
Brock University Foundation
Carleton University Foundation
CIAR Foundation (Canadian Institute for Advanced Research)
Canadian Opera Company Crown Foundation
Canadian Stage Company Crown Foundation
Chatham/Kent Community Care Access Centre
Cochrane District Community Care Access Centre
Community Care Access Centre (CCAC) – Oxford
Community Care Access Centre for Huron
Community Care Access Centre for Kenora and Rainy River Districts
Community Care Access Centre for the Eastern Counties
Community Care Access Centre Niagara
Community Care Access Centre of Halton
Community Care Access Centre of London
Community Care Access Centre of Peel
Community Care Access Centre of Waterloo Region
Community Care Access Centre Wellington-Dufferin
Community Care Access Centre of York Region
Community Care Access Centre Perth County
Community Care Access Centre Simcoe County
Community Care Access Centre Timiskaming
Community Care Access Centre of The District of Thunder Bay
Dairy Farmers of Ontario
Deposit Insurance Corporation of Ontario
Durham Access to Care
East York Access Centre for Community Services
Education Quality and Accountability Office
Elgin Community Care Access Centre
Etobicoke Community Care Access Centre

Exhibit Two

Corporations whose accounts are audited by an auditor other than the Provincial Auditor, with full access by the Provincial Auditor to audit reports, working papers, and other related documents (continued)

Foundation at Queen's University at Kingston
Grand River Hospital Crown Foundation
Greater Toronto Transit Authority
Grey-Bruce Community Care Access Centre
Haldimand-Norfolk Community Care Access Centre
Haliburton, Northumberland and Victoria Long-Term Care Access Centre
Hamilton Community Care Access Centre
Hydro One Inc.
Kingston, Frontenac, Lennox and Addington Community Care Access Centre
Lakehead University Foundation
Laurentian University of Sudbury Foundation
Manitoulin-Sudbury Community Care Access Centre
McMaster University Foundation
McMichael Canadian Art Collection
Metropolitan Toronto Convention Centre Corporation
Mount Sinai Hospital Crown Foundation
National Ballet of Canada Crown Foundation
Near North Community Care Access Centre
Nipissing University Foundation
North York Community Care Access Centre
North York General Hospital Crown Foundation
Ontario Family Health Network
Ontario Foundation for the Arts
Ontario Lottery and Gaming Corporation
Ontario Mortgage Corporation
Ontario Municipal Employees Retirement Board
Ontario Pension Board
Ontario Power Generation Inc.
Ontario Trillium Foundation
Ottawa Community Care Access Centre
Ottawa Congress Centre
Renfrew County Community Care Access Centre
Royal Botanical Gardens Crown Foundation
Royal Ontario Museum
Royal Ontario Museum Crown Foundation
Ryerson Polytechnic University Foundation
Sarnia/Lambton Community Care Access Centre
Scarborough Community Care Access Centre
Science North
Shaw Festival Crown Foundation
Smart Systems for Health Agency
St. Clair Parks Commission
St. Michael's Hospital Crown Foundation
Stadium Corporation of Ontario Limited
Stratford Festival Crown Foundation
Sunnybrook Hospital Crown Foundation

Corporations whose accounts are audited by an auditor other than the Provincial Auditor, with full access by the Provincial Auditor to audit reports, working papers, and other related documents (continued)
The Peterborough Community Access Centre Incorporated
Toronto Community Care Access Centre
Toronto Hospital Crown Foundation
Toronto Islands Residential Community Trust Corporation
Toronto Symphony Orchestra Crown Foundation
Trent University Foundation
University of Guelph Foundation
University of Ottawa Foundation
University of Toronto Foundation
University of Waterloo Foundation
University of Western Ontario Foundation
University of Windsor Foundation
Waterfront Regeneration Trust Agency
Wilfrid Laurier University Foundation
Windsor/Essex Community Care Access Centre
Women's College and Wellesley Central Crown Foundation
York Community Care Access Centre
York University Foundation

Notes:
Changes during the 2001/02 fiscal year:
Additions:

- Access Centre for Community Care in Lanark, Leeds and Grenville
- Access Centre for Hastings and Prince Edward Counties
- Algoma Community Care Access Centre
- Brant Community Care Access Centre
- Chatham/Kent Community Care Access Centre
- Cochrane District Community Care Access Centre
- Community Care Access Centre (CCAC) – Oxford
- Community Care Access Centre for Huron
- Community Care Access Centre for Kenora and Rainy River Districts
- Community Care Access Centre for the Eastern Counties
- Community Care Access Centre Niagara
- Community Care Access Centre of Halton
- Community Care Access Centre of London
- Community Care Access Centre of Peel
- Community Care Access Centre of Waterloo Region
- Community Care Access Centre Wellington-Dufferin
- Community Care Access Centre of York Region
- Community Care Access Centre Perth County
- Community Care Access Centre Simcoe County
- Community Care Access Centre Timiskaming
- Community Care Access Centre of The District of Thunder Bay
- Durham Access to Care
- East York Access Centre for Community Services
- Elgin Community Care Access Centre
- Etobicoke Community Care Access Centre
- Greater Toronto Transit Authority
- Grey-Bruce Community Care Access Centre
- Haldimand-Norfolk Community Care Access Centre
- Haliburton, Northumberland and Victoria Long-Term Care Access Centre
- Hamilton Community Care Access Centre

Notes continued...

Exhibit Two

Notes (continued):
Changes during the 2001/02 fiscal year:
Additions (continued):

- Kingston, Frontenac, Lennox and Addington Community Care Access Centre
- Manitoulin-Sudbury Community Care Access Centre
- Near North Community Care Access Centre
- North York Community Care Access Centre
- Ottawa Community Care Access Centre
- Renfrew County Community Care Access Centre
- Sarnia/Lambton Community Care Access Centre
- Scarborough Community Care Access Centre
- Smart Systems for Health Agency
- The Peterborough Community Access Centre Incorporated
- Toronto Community Care Access Centre
- Windsor/Essex Community Care Access Centre
- York Community Care Access Centre

Deletions:

- Moosonee Development Area Board
- Ontario SuperBuild Corporation
- Toronto East General Hospital Crown Foundation

EXHIBIT THREE

Treasury Board Orders

Under sub-section 12(2)(e) of the *Audit Act*, the Provincial Auditor is required to annually report all orders of the Management Board of Cabinet authorizing payments in excess of appropriations, stating the date of each order, the amount authorized, and the amount expended. These are outlined in the following table.

Amounts Authorized and Expended Thereunder Year Ended March 31, 2002

Ministry	Date of Order	Authorized $	Expended $
Agriculture, Food and Rural Affairs	Mar. 5, 2002	402,000	—
Attorney General	Jan. 15, 2002	5,800,000	3,665,241
	Feb. 26, 2002	4,052,300	2,428,300
	Mar. 5, 2002	11,213,400	2,242,199
	Mar. 6, 2002	4,220,100	3,901,568
		25,285,800	12,237,308
Citizenship	Mar. 11, 2002	810,000	—
Community and Social Services	Jan. 15, 2002	47,800,000	47,800,000
	Mar. 5, 2002	51,529,800	20,170,805
		99,329,800	67,970,805
Consumer and Business Services	Feb. 5, 2002	4,804,000	4,657,919
	Mar. 5, 2002	7,512,500	3,066,760
		12,316,500	7,724,679
Correctional Services	Mar. 5, 2002	41,685,000	41,288,549
Economic Development and Trade	Mar. 5, 2002	2,425,000	1,223,404
Education	Feb. 6, 2002	4,262,500	1,623,759
	Mar. 5, 2002	4,727,400	476,826
		8,989,900	2,100,585
Energy, Science and Technology	Feb. 5, 2002	3,600,000	2,586,097
	Feb. 26, 2002	1,630,000	729,613
		5,230,000	3,315,710
Environment	Feb. 6, 2002	8,310,000	8,310,000
	Mar. 6, 2002	3,200,000	3,108,686
	Mar. 19, 2002	8,048,300	4,822,401
		19,558,300	16,241,087
Finance	Feb. 26, 2002	29,923,000	2,240,353

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Exhibit Three

Ministry	Date of Order	Authorized $	Expended $
Office of Francophone Affairs	Feb. 12, 2002	72,000	—
Health and Long-Term Care	Mar. 11, 2002	310,257,900	258,149,259
Labour	Jan. 15, 2002	747,100	747,100
	Feb. 26, 2002	711,100	425,217
		1,458,200	1,172,317
Office of the Lieutenant Governor	Feb. 5, 2002	104,200	89,861
Management Board Secretariat	Dec. 6, 2001	9,000,000	9,000,000
	Mar. 5, 2002	26,932,400	16,862,378
	Mar. 19, 2002	98,756,600	88,714,352
		134,689,000	114,576,730
Municipal Affairs and Housing	June 14, 2001	1,375,000	1,213,666
	Dec. 11, 2001	2,872,800	2,872,800
	Dec. 11, 2001	2,127,700	1,685,922
	Feb. 5, 2002	15,000,000	15,000,000
	Mar. 5, 2002	19,976,300	14,754,938
		41,351,800	35,527,326
Natural Resources	Aug. 7, 2001	8,000,000	8,000,000
	Aug. 28, 2001	15,000,000	15,000,000
	Dec. 6, 2001	10,000,000	10,000,000
	Mar. 5, 2002	2,707,100	978,170
		35,707,100	33,978,170
Northern Development and Mines	Feb. 12, 2002	1,318,600	199,603
Solicitor General	Mar. 5, 2002	26,976,500	21,358,857
	Mar. 6, 2002	1,590,000	1,584,939
		28,566,500	22,943,796
Tourism, Culture and Recreation	Jan. 15, 2002	13,000,000	13,000,000
	Mar. 19, 2002	9,005,400	7,935,497
	Apr. 3, 2002	1,450,000	730,947
		23,455,400	21,666,444
Training, Colleges and Universities	Mar. 5, 2002	12,968,000	7,175,937
Transportation	Feb. 6, 2002	41,513,000	37,378,113
	Mar. 5, 2002	20,594,200	19,660,570
	Mar. 5, 2002	9,656,700	1,325,466
		71,763,900	58,364,149
TOTAL TREASURY BOARD ORDERS		**907,667,900**	**708,186,072**

Exhibit Three

Ministry	Date of Order	Authorized $	Expended* $
Office of Francophone Affairs	Feb. 12, 2002	72,000	—
Health and Long-Term Care	Mar. 11, 2002	310,257,900	258,149,259
Labour	Jan. 15, 2002	747,100	747,100
	Feb. 26, 2002	711,100	425,217
		1,458,200	1,172,317
Office of the Lieutenant Governor	Feb. 5, 2002	104,200	89,861
Management Board Secretariat	Dec. 6, 2001	9,000,000	9,000,000
	Mar. 5, 2002	26,932,400	16,862,378
	Mar. 19, 2002	98,756,600	88,714,352
		134,689,000	114,576,730
Municipal Affairs and Housing	June 14, 2001	1,375,000	1,213,666
	Dec. 11, 2001	2,872,800	2,872,800
	Dec. 11, 2001	2,127,700	1,685,922
	Feb. 5, 2002	15,000,000	15,000,000
	Mar. 5, 2002	19,976,300	14,754,938
		41,351,800	35,527,326
Natural Resources	Aug. 7, 2001	8,000,000	8,000,000
	Aug. 28, 2001	15,000,000	15,000,000
	Dec. 6, 2001	10,000,000	10,000,000
	Mar. 5, 2002	2,707,100	978,170
		35,707,100	33,978,170
Northern Development and Mines	Feb. 12, 2002	1,318,600	199,603
Solicitor General	Mar. 5, 2002	26,976,500	21,358,857
	Mar. 6, 2002	1,590,000	1,584,939
		28,566,500	22,943,796
Tourism, Culture and Recreation	Jan. 15, 2002	13,000,000	13,000,000
	Mar. 19, 2002	9,005,400	7,935,497
	Apr. 3, 2002	1,450,000	730,947
		23,455,400	21,666,444
Training, Colleges and Universities	Mar. 5, 2002	12,968,000	7,175,937
Transportation	Feb. 6, 2002	41,513,000	37,378,113
	Mar. 5, 2002	20,594,200	19,660,570
	Mar. 5, 2002	9,656,700	1,325,466
		71,763,900	58,364,149
TOTAL TREASURY BOARD ORDERS		**907,667,900**	**708,186,072**

EXHIBIT FOUR

The *Audit Act*

R.S.O. 1990, Chapter A.35

Amended by: 1999, c. 5, s. 1; 1999, c. 11.

Definitions

1. In this Act,

"agency of the Crown" means an association, authority, board, commission, corporation, council, foundation, institution, organization or other body,

(a) whose accounts the Auditor is appointed to audit by its shareholders or by its board of management, board of directors or other governing body,

(b) whose accounts are audited by the Auditor under any other Act or whose accounts the Auditor is appointed by the Lieutenant Governor in Council to audit,

(c) whose accounts are audited by an auditor, other than the Auditor, appointed by the Lieutenant Governor in Council, or

(d) the audit of the accounts of which the Auditor is required to direct or review or in respect of which the auditor's report and the working papers used in the preparation of the auditor's statement are required to be made available to the Auditor under any other Act,

but does not include one that the *Crown Agency Act* states is not affected by that Act or that any other Act states is not a Crown agency within the meaning or for the purposes of the *Crown Agency Act*; ("organisme de la Couronne")

"Assistant Auditor" means the Assistant Provincial Auditor; ("Vérificateur adjoint")

"Auditor" means the Provincial Auditor; ("Vérificateur")

"Board" means the Board of Internal Economy referred to in section 87 of the *Legislative Assembly Act*; ("Commission")

"Crown controlled corporation" means a corporation that is not an agency of the Crown and having 50 per cent or more of its issued and outstanding shares vested in Her Majesty in right of Ontario or having the appointment of a majority of its board of directors made or approved by the Lieutenant Governor in Council; ("société contrôlée par la Couronne")

"fiscal year" has the same meaning as in the *Ministry of Treasury and Economics Act*; ("exercice")

"inspection audit" means an examination of accounting records; ("vérification")

"Office of the Auditor" means the Office of the Provincial Auditor; ("Bureau du Vérificateur")

"public money" has the same meaning as in the *Financial Administration Act*. ("deniers publics") R.S.O. 1990, c. A.35, s. 1.

Office of the Auditor

2. The Office of the Provincial Auditor shall consist of the Auditor, the Assistant Auditor and such employees as may be required from time to time for the proper conduct of the business of the Office. R.S.O. 1990, c. A.35, s. 2.

Provincial Auditor

3. The Auditor shall be appointed as an officer of the Assembly by the Lieutenant Governor in Council on the address of the Assembly after consultation with the chair of the standing Public Accounts Committee of the Assembly. R.S.O. 1990, c. A.35, s. 3.

Tenure of office and removal

4. The Auditor may hold office until the end of the month in which he or she attains the age of sixty-five years and may be reappointed for a period not exceeding one year at a time until the end of the month in which he or she attains seventy years of age, but is removable at any time for cause by the Lieutenant Governor in Council on the address of the Assembly. R.S.O. 1990, c. A.35, s. 4.

Salary of Auditor

5.—(1) The Auditor shall be paid a salary within the highest range of salaries paid to deputy ministers in the Ontario civil service and is entitled to the privileges of office of a senior deputy minister. R.S.O. 1990, c. A.35, s. 5 (1); 1999, c. 5, s. 1 (1); 1999, c. 11, s. 1 (1).

Same

(2) The salary of the Auditor, within the salary range referred to in subsection (1), shall be determined and reviewed annually by the Board. 1999, c. 11, s. 1 (2).

Idem

(3) The salary of the Auditor shall be charged to and paid out of the Consolidated Revenue Fund. R.S.O. 1990, c. A.35, s. 5 (3).

Exhibit Four

Appointment of Assistant Auditor

6. The Assistant Auditor shall be appointed as an officer of the Assembly by the Lieutenant Governor in Council upon the recommendation of the Auditor. R.S.O. 1990, c. A.35, s. 6.

Duties of Assistant Auditor

7. The Assistant Auditor, under the direction of the Auditor, shall assist in the exercise of the powers and the performance of the duties of the Auditor and, in the absence or inability to act of the Auditor, shall act in the place of the Auditor. R.S.O. 1990, c. A.35, s. 7.

Qualifications

8. The persons appointed as Auditor and Assistant Auditor shall be persons who are licensed under the *Public Accountancy Act*. R.S.O. 1990, c. A.35, s. 8.

Audit of Consolidated Revenue Fund

9.—(1) The Auditor shall audit, on behalf of the Assembly and in such manner as the Auditor considers necessary, the accounts and records of the receipt and disbursement of public money forming part of the Consolidated Revenue Fund whether held in trust or otherwise. R.S.O. 1990, c. A.35, s. 9 (1).

Audit of agencies of the Crown

(2) Where the accounts and financial transactions of an agency of the Crown are not audited by another auditor, the Auditor shall perform the audit, and, despite any other Act, where the accounts and financial transactions of an agency of the Crown are audited by another auditor, the audit shall be performed under the direction of the Auditor and such other auditor shall report to the Auditor. R.S.O. 1990, c. A.35, s. 9 (2).

Audit of Crown controlled corporations

(3) Where the accounts of a Crown controlled corporation are audited other than by the Auditor, the person or persons performing the audit,

(a) shall deliver to the Auditor forthwith after completion of the audit a copy of their report of their findings and their recommendations to the management and a copy of the audited financial statements of the corporation;

(b) shall make available forthwith to the Auditor, when so requested by the Auditor, all working papers, reports, schedules and other documents in respect of the audit or in respect of any other audit of the corporation specified in the request;

(c) shall provide forthwith to the Auditor, when so requested by the Auditor, a full explanation of work performed, tests and examinations made and the results obtained, and any other information within the knowledge of such person or persons in respect of the corporation. R.S.O. 1990, c. A.35, s. 9 (3).

Exhibit Four

Additional examination and investigation

(4) Where the Auditor is of the opinion that any information, explanation or document that is provided, made available or delivered to him or her by the auditor or auditors referred to in subsection (2) or (3) is insufficient, the Auditor may conduct or cause to be conducted such additional examination and investigation of the records and operations of the agency or corporation as the Auditor considers necessary. R.S.O. 1990, c. A.35, s. 9 (4).

Information and access to records

10. Every ministry of the public service, every agency of the Crown and every Crown controlled corporation shall furnish the Auditor with such information regarding its powers, duties, activities, organization, financial transactions and methods of business as the Auditor from time to time requires, and the Auditor shall be given access to all books, accounts, financial records, reports, files and all other papers, things or property belonging to or in use by the ministry, agency of the Crown or Crown controlled corporation and necessary to the performance of the duties of the Auditor under this Act. R.S.O. 1990, c. A.35, s. 10.

Accommodation in ministries and Crown agencies

11. For the purposes of exercising powers or performing duties under this Act, the Auditor may station one or more members of the Office of the Auditor in any ministry of the public service, in any agency of the Crown and in any Crown controlled corporation and the ministry, agency or corporation shall provide such accommodation as is required for such purposes. R.S.O. 1990, c. A.35, s. 11.

Annual report

12.—(1) The Auditor shall report annually to the Speaker of the Assembly after each fiscal year is closed and the Public Accounts are laid before the Assembly, but not later than the 31st day of December in each year unless the Public Accounts are not laid before the Assembly by that day, and may make a special report to the Speaker at any time on any matter that in the opinion of the Auditor should not be deferred until the annual report, and the Speaker shall lay each such report before the Assembly forthwith if it is in session or, if not, not later than the tenth day of the next session. R.S.O. 1990, c. A.35, s. 12 (1).

Contents of report

(2) In the annual report in respect of each fiscal year, the Auditor shall report on,

(a) the work of the Office of the Auditor, and on whether in carrying on the work of the Office the Auditor received all the information and explanations required;

(b) the examination of accounts of receipts and disbursements of public money;

(c) the examination of the statements of Assets and Liabilities, the Consolidated Revenue Fund and Revenue and Expenditure as reported in the Public Accounts, and shall express an opinion as to whether the statements present fairly the financial position of the Province, the results of its operations and the changes in its financial position in accordance with the accounting principles stated in the Public Accounts applied on a basis consistent with that of the preceding fiscal year together with any reservations the Auditor may have;

(d) all special warrants issued to authorize payments, stating the date of each special warrant, the amount authorized and the amount expended;

(e) all orders of the Management Board of Cabinet made to authorize payments in excess of appropriations, stating the date of each order, the amount authorized and the amount expended;

(f) such matters as, in the opinion of the Auditor, should be brought to the attention of the Assembly including, without limiting the generality of the foregoing, any matter related to the audit of agencies of the Crown or Crown controlled corporations or any cases where the Auditor has observed that,

  (i) accounts were not properly kept or public money was not fully accounted for,

  (ii) essential records were not maintained or the rules and procedures applied were not sufficient to safeguard and control public property or to effectively check the assessment, collection and proper allocation of revenue or to ensure that expenditures were made only as authorized,

  (iii) money was expended other than for the purposes for which it was appropriated,

  (iv) money was expended without due regard to economy and efficiency, or

  (v) where procedures could be used to measure and report on the effectiveness of programs, the procedures were not established or, in the opinion of the Auditor, the established procedures were not satisfactory. R.S.O. 1990, c. A.35, s. 12 (2).

Exhibit Four

Inspection audit

13.—(1) The Auditor may perform an inspection audit in respect of a payment in the form of a grant from the Consolidated Revenue Fund or an agency of the Crown and may require a recipient of such a payment to prepare and to submit to the Auditor a financial statement that sets out the details of the disposition of the payment by the recipient. R.S.O. 1990, c. A.35, s. 13 (1).

Obstruction of Auditor

(2) No person shall obstruct the Auditor or any member of the Office of the Auditor in the performance of an inspection audit or conceal or destroy any books, papers, documents or things relevant to the subject-matter of the inspection audit. R.S.O. 1990, c. A.35, s. 13 (2).

Offence

(3) Every person who knowingly contravenes subsection (2) and every director or officer of a corporation who knowingly concurs in such contravention is guilty of an offence and on conviction is liable to a fine of not more than $2,000 or to imprisonment for a term of not more than one year, or to both. R.S.O. 1990, c. A.35, s. 13 (3).

Idem, corporation

(4) Where a corporation is convicted of an offence under subsection (3), the maximum penalty that may be imposed upon the corporation is $25,000 and not as provided therein. R.S.O. 1990, c. A.35, s. 13 (4).

Examination on oath

14. The Auditor may examine any person on oath on any matter pertinent to any account subject to audit by the Auditor or in respect of any inspection audit by the Auditor and for the purpose of such an examination the Auditor has the powers conferred upon a commission under Part II of the *Public Inquiries Act*, which Part applies to the examination as if it were an inquiry under that Act. R.S.O. 1990, c. A.35, s. 14.

Proviso

15. Nothing in this Act shall be construed to require the Auditor,

(a) to report on any matter that, in the opinion of the Auditor, is immaterial or insignificant; or

(b) to audit or direct the audit of or report on the accounts of a body not referred to in this Act in the absence of such a requirement in any other Act in respect of the body. R.S.O. 1990, c. A.35, s. 15.

Attendance at standing Public Accounts Committee of the Assembly

16. At the request of the standing Public Accounts Committee of the Assembly, the Auditor and any member of the Office of the Auditor designated by the Auditor shall attend at the meetings of the committee in order,

(a) to assist the committee in planning the agenda for review by the committee of the Public Accounts and the annual report of the Auditor; and

(b) to assist the committee during its review of the Public Accounts and the annual report of the Auditor,

and the Auditor shall examine into and report on any matter referred to him or her in respect of the Public Accounts by a resolution of the committee. R.S.O. 1990, c. A.35, s. 16.

Special assignments

17. The Auditor shall perform such special assignments as may be required by the Assembly, the standing Public Accounts Committee of the Assembly, by resolution of the committee, or by a minister of the Crown in right of Ontario but such special assignments shall not take precedence over the other duties of the Auditor under this Act and the Auditor may decline an assignment by a minister of the Crown that, in the opinion of the Auditor, might conflict with the other duties of the Auditor R.S.O. 1990, c. A.35, s. 17.

Power to advise

18. The Auditor may advise appropriate persons employed in the public service of Ontario as to any matter that comes or that may come to the attention of the Auditor in the course of exercising the powers or performing the duties of Auditor. R.S.O. 1990, c. A.35, s. 18.

Audit working papers

19. Audit working papers of the Office of the Auditor shall not be laid before the Assembly or any committee of the Assembly. R.S.O. 1990, c. A.35, s. 19.

Staff

20. Subject to the approval of the Board and to sections 22, 25 and 26, the Auditor may employ such professional staff and other persons as the Auditor considers necessary for the efficient operation of the Office of the Auditor and may determine the salary of the Assistant Auditor and the salaries and remuneration, which shall be comparable to the salary ranges of similar positions or classifications in the public service of Ontario, and the terms and conditions of employment of the employees of the Office of the Auditor. R.S.O. 1990, c. A.35, s. 20.

Oath of office and secrecy and oath of allegiance

21.—(1) Every employee of the Office of the Auditor, before performing any duty as an employee of the Auditor, shall take and subscribe before the Auditor or a person designated in writing by the Auditor,

(a) the following oath of office and secrecy, in English or in French:

I, ..., do swear (*or* solemnly affirm) that I will faithfully discharge my duties as an employee of the Provincial Auditor and will observe and comply with the laws of Canada and Ontario and, except as I may be legally required, I will not disclose or give to any person any information or document that comes to my knowledge or possession by reason of my being an employee of the Office of the Auditor.

So help me God. (Omit this line in an affirmation)

(b) the following oath of allegiance, in English or in French:

I, ..., do swear (*or* solemnly affirm) that I will be faithful and bear true allegiance to Her Majesty Queen Elizabeth the Second (*or the reigning sovereign for the time being*), her heirs and successors according to law.

So help me God. (Omit this line in an affirmation)

R.S.O. 1990, c. A.35, s. 21 (1).

Idem

(2) The Auditor may require any person or class of persons appointed to assist the Auditor for a limited period of time or in respect of a particular matter to take and subscribe either or both of the oaths set out in subsection (1). R.S.O. 1990, c. A.35, s. 21 (2).

Record of oaths

(3) A copy of each oath administered to an employee of the Office of the Auditor under subsection (1) shall be kept in the file of the employee in the Office of the Auditor. R.S.O. 1990, c. A.35, s. 21 (3).

Cause for dismissal

(4) The failure of an employee of the Office of the Auditor to take and subscribe or to adhere to either of the oaths required by subsection (1) may be considered as cause for dismissal. R.S.O. 1990, c. A.35, s. 21 (4).

Benefits

22.—(1) The employee benefits applicable from time to time under the *Public Service Act* to civil servants who are not within a unit of employees established for collective bargaining under any Act apply or continue to apply, as the case may be, to the Auditor, the Assistant Auditor and to the full-time permanent and probationary employees of the Office of the Auditor and the Board or any person authorized by order of the Board may exercise the powers and duties of the Civil Service Commission and the Auditor or any person authorized in writing by the Auditor may exercise the powers and duties of a deputy minister under that Act in respect of such benefits. R.S.O. 1990, c. A.35, s. 22 (1).

Pension plan

(2) The Auditor and the Assistant Auditor are members of the Public Service Pension Plan. R.S.O. 1990, c. A.35, s. 22 (2).

Expert assistance

23. Subject to the approval of the Board, the Auditor from time to time may appoint one or more persons having technical or special

Exhibit Four

knowledge of any kind to assist the Auditor for a limited period of time or in respect of a particular matter and the money required for the purposes of this section shall be charged to and paid out of the Consolidated Revenue Fund. R.S.O. 1990, c. A.35, s. 23.

Delegation of authority

24. The Auditor may delegate in writing to any other member of the Office of the Auditor authority to exercise any power or perform any duty of the Auditor other than reporting to the Assembly. R.S.O. 1990, c. A.35, s. 24.

Political activities of employees of the Office of the Auditor

25.—(1) An employee of the Office of the Auditor shall not,

(a) be a candidate in a provincial or federal election or in an election for any municipal office including a local board of a municipality within the meaning of the *Municipal Affairs Act*;

(b) solicit funds for a provincial, federal or municipal party or candidate; or

(c) associate his or her position in the Office of the Auditor with any political activity. R.S.O. 1990, c. A.35, s. 25 (1).

Cause for dismissal

(2) Contravention of any of the provisions of subsection (1) may be considered as cause for dismissal. R.S.O. 1990, c. A.35, s. 25 (2).

Conduct and discipline

26.—(1) The Auditor may make orders and rules for the conduct of the internal business of the Office of the Auditor and, after a hearing, may suspend, demote or dismiss any employee of the Office of the Auditor for cause. R.S.O. 1990, c. A.35, s. 26 (1).

Hearing

(2) The *Public Service Act* and regulations thereunder that apply in relation to suspension from employment pending an investigation and in relation to a hearing by a deputy minister or his or her delegate as to cause for dismissal, other than as to notice to the Civil Service Commission, apply with necessary modifications where the Auditor is of the opinion that there may exist cause for the suspension without pay, demotion or dismissal of an employee of the Office of the Auditor, and, for the purpose, the Auditor shall be deemed to be a deputy minister. R.S.O. 1990, c. A.35, s. 26 (2).

Appeals

(3) A decision of the Auditor to demote, suspend or dismiss an employee may be appealed by the employee, within fourteen days after the decision has been communicated to the employee to the Public Service Grievance Board established under the *Public Service Act*. R.S.O. 1990, c. A.35, s. 26 (3).

Exhibit Four

Grievance Board authorized to hear appeals

(4) The Public Service Grievance Board may hear and dispose of an appeal under this section and the provisions of the regulation under the *Public Service Act* that apply in relation to a grievance for dismissal apply with necessary modifications to an appeal under this section, and, for the purpose, the Auditor shall be deemed to be a deputy minister and the decision of the Public Service Grievance Board is final and the Public Service Grievance Board shall report its decision and reasons in writing to the Auditor and to the appellant. R.S.O. 1990, c. A.35, s. 26 (4).

Proceedings privileged

27.—(1) No proceedings lie against the Auditor, the Assistant Auditor, any person employed in the Office of the Auditor or any person appointed to assist the Auditor for a limited period of time or in respect of a particular matter, for anything he or she may do or report or say in the course of the exercise or the intended exercise of functions under this Act, unless it is shown that he or she acted in bad faith. R.S.O. 1990, c. A.35, s. 27 (1).

Information confidential

(2) The Auditor, the Assistant Auditor and each person employed in the Office of the Auditor or appointed to assist the Auditor for a limited period of time or in respect of a particular matter shall preserve secrecy with respect to all matters that come to his or her knowledge in the course of his or her employment or duties under this Act and shall not communicate any such matters to any person, except as may be required in connection with the administration of this Act or any proceedings under this Act or under the *Criminal Code* (Canada). R.S.O. 1990, c. A.35, s. 27 (2).

Examination of accounts of Office of the Auditor

28. A person or persons, not employed by the Crown or the Office of the Assembly, licensed under the *Public Accountancy Act* and appointed by the Board, shall examine the accounts relating to the disbursements of public money on behalf of the Office of the Auditor and shall report thereon to the Board and the chairman of the Board shall cause the report to be laid before the Assembly if it is in session or, if not, at the next session. R.S.O. 1990, c. A.35, s. 28.

Estimates

29.—(1) The Auditor shall present annually to the Board estimates of the sums of money that will be required for the purposes of this Act. R.S.O. 1990, c. A.35, s. 29 (1).

Review by Board

(2) The Board shall review and may alter as it considers proper the estimates presented by the Auditor, and the chair of the Board shall cause the estimates as altered by the Board to be laid before the Assembly and the Assembly shall refer the estimates laid before it to a committee of the Assembly for review. R.S.O. 1990, c. A.35, s. 29 (2).

Notice (3) Notice of meetings of the Board to review or alter the estimates presented by the Auditor shall be given to the chair and the vice-chair of the standing Public Accounts Committee of the Assembly and the chair and the vice-chair may attend at the review of the estimates by the Board. R.S.O. 1990, c. A.35, s. 29 (3).

Money (4) The money required for the purposes of this Act, other than under sections 5 and 23, shall be paid out of the money appropriated therefor by the Legislature. R.S.O. 1990, c. A.35, s. 29 (4).

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